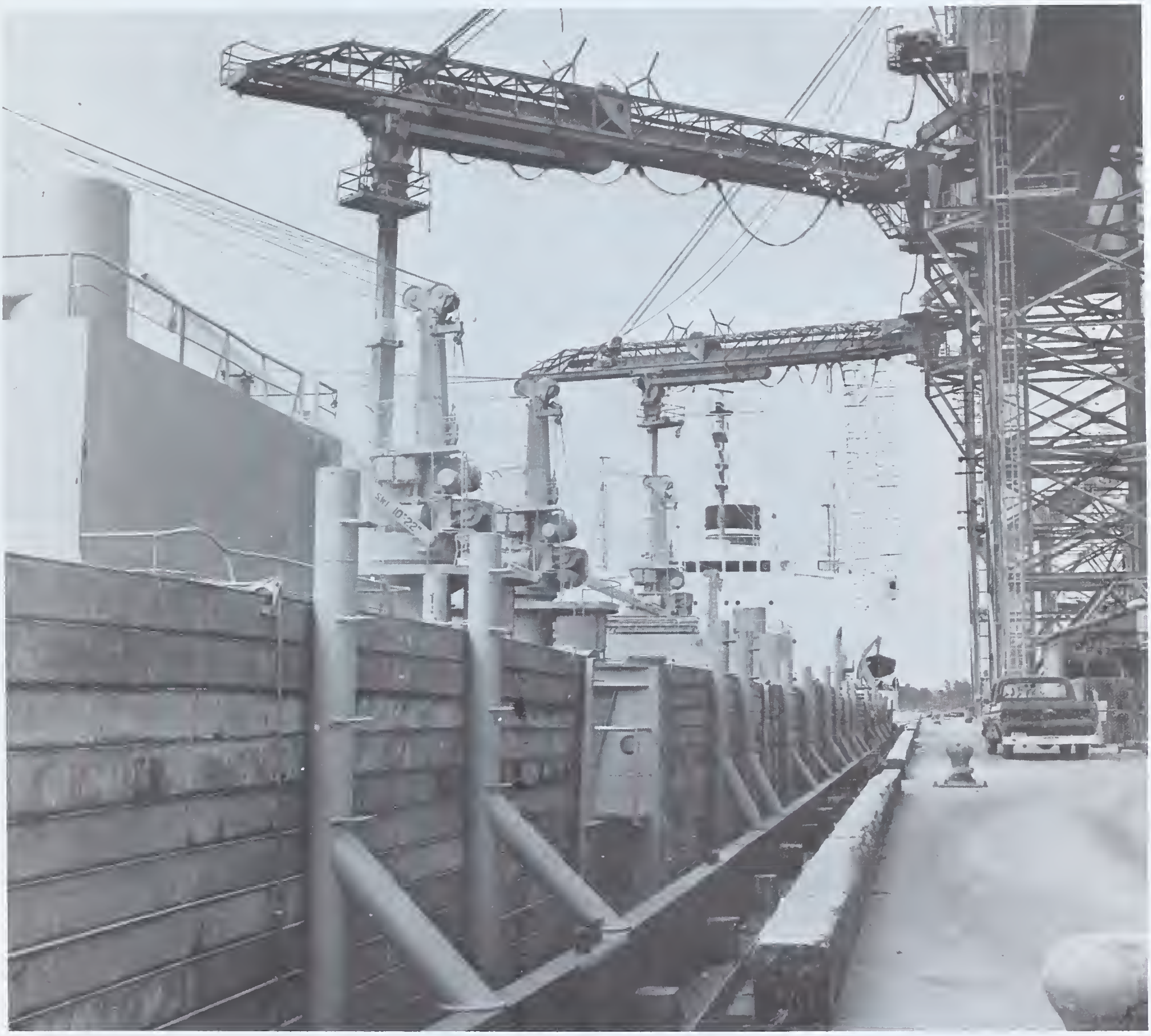
Export Techniques of Grain Cooperatives



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CONTENTS

HIGHLIGHTS

Exporting grain is a highly specialized form of marketing. Success depends on careful attention to detail. To understand the many techniques used in developing sales arrangements and physically handling grain for export is to know the "how" of exporting.

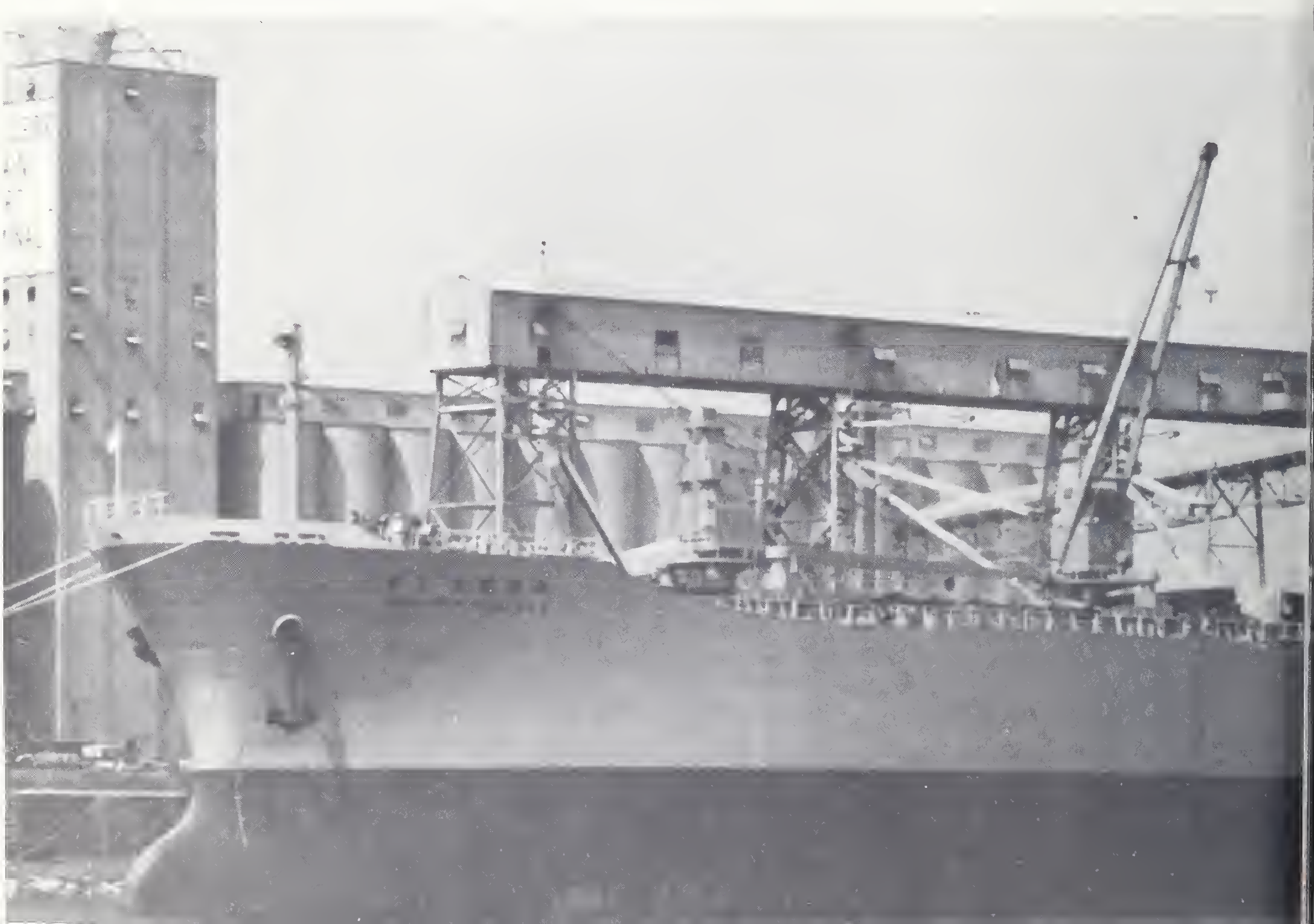
There are certain fundamental techniques that should be understood by directors and administrative employees for cooperative grain export programs. Included are techniques involved in export pricing, overseas shipping arrangements, and sales and service.

Agreement between buyer and seller on the point at which title to the grain is to be transferred from seller to buyer is a critical part of the export pricing process.

Cooperatives exporting grain usually sell it f.o.b. (free on board) an oceangoing vessel at a U.S. port. Some cooperatives sell a portion of their grain c.i.f. (cost, insurance and freight); this means the grain is delivered to the buyer(s) at a foreign port. On some occasions, grain is sold c.&f. (cost and freight) with the grain delivered to a foreign port but with the cost of insurance on the cargo while en route being borne by the buyer rather than the seller.

A c.i.f. or c.&f. sale is more complex than an f.o.b. sale and involves more responsibility and risk for a cooperative shipper. On the other hand, c.i.f. and c.&f. sales may have three major benefits for a large-scale, continuing export program: (1) A net margin on the chartering of vessels, (2) an enhanced reputation among buyers for dependability of product and reliability of service, and (3) greater flexibility in operations that may enable the cooperative to take advantage of changing conditions in the commodity and ocean freight markets.

In some export sales of grain, the final price is specified in the sales contract between the seller and the buyer. This is called a "fixed" (or "flat" or "firm") price. In other instances, the price is not fixed and the sales contract will contain provisions for setting the final price at a future date.



Ocean shipping arrangements require special expertise. To "charter" a vessel is to rent it for a voyage or specified period of time. Chartering is handled by experienced specialists, but each export decisionmaker should have at least a general understanding of the problems and techniques involved.

Export sales and service activities vary considerably from their domestic counterpart. Coordinating the assembly, inland transportation, storage, and overseas transportation of grain with its sale to buyers at a U.S. port elevator or at foreign ports is a difficult and demanding job.

A grain export program consists of a series of separate but integrated sale-and-shipment operations. In a small program, these may take place consecutively. In a relatively large program, at any given time some operations will be just starting, some nearing completion, and others at interim stages of development.

Long-term sales contracts are not common in the international grain trade. They may be used more frequently in the future.

To obtain needed expertise in a foreign market, a cooperative may arrange for a foreign firm to act as its overseas representative and to provide specified services. These services may vary considerably in scope and depth. It is possible for an overseas representative to act, in effect, as a cooperative's export sales department.

Cooperative leaders are reevaluating their grain export operations because they recognize the following advantages associated with large-scale operations: (1) low average fixed costs per unit of volume handled, (2) a high degree of operating flexibility, (3) significant bargaining power in chartering, and (4) improved services through a worldwide marketing system.

Ship owned by a Japanese cooperative (now Zen-Noh) loading grain at the Port of Corpus Christi, Tex., elevator of Producers Grain Cooperative.

As a group, cooperatives are able to deliver grain for export from many U.S. ports. Here corn supplied by Gold Kist Inc. is being loaded for export at the Port of Charleston, S.C.

Export Techniques of Grain Cooperatives

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Farmer cooperatives exporting grain must recognize and adhere to the same basic business principles that are essential for success in domestic marketing. In addition, there are many practices and techniques that are peculiar to export marketing and these must be developed and applied very carefully.

The basic objective of this report is to provide a body of technical information that will assist directors and administrative employees of American cooperatives to evaluate opportunities for improving or expanding their grain and export marketing programs. The discussion centers on selected techniques for which the need for information appears greatest among leaders of farmer cooperatives. Certain common practices and problems are put into perspective, although it is beyond the scope of this report to cover all technical aspects of grain exporting or the many variations in techniques used.[1]

Official U.S. grain standards have been established for the following commodities: wheat, corn, barley, oats, rye, grain sorghum, flaxseed, soybeans, and "mixed grain." This report deals with the export marketing of all of these commodities but the discussions herein relate most closely to the techniques and problems involved in exporting shiploads of corn and soybeans.

Most of the export techniques discussed here have been used by grain exporting cooperatives. Others have been used sparingly—if at all—by such associations. The latter are of increasing importance as cooperative leaders give consideration to possibilities for making more sales direct to foreign buyers and arranging for delivery of grain to foreign ports.

To understand what is involved in the direct export business, one must have some knowledge of the technical terms that are pertinent. Definitions of technical terms used in the international grain trade are in appendix A. They are intended to meet the rather general needs of operating policymakers as well as the specialized needs of employees directly involved in sales and shipping arrangements.

The cost of shipping grains via seagoing vessels usually is in terms of "long tons" whereas the overseas selling price usually is in terms of "metric tons." Neither of these measures of quantity is used in domestic marketing; there the word "bushels" still prevails. Tables developed by the author to facilitate conversions of prices and quantities from one measure to another are in appendix B.

A successful grain exporting program is a complex form of business that requires careful planning and constant attention to details.

[1]For a comprehensive analysis of cooperative grain exporting, see Improving the Export Capability of Grain Cooperatives. Stanley K. Thurston, Michael J. Phillips, James E. Haskell, and David Volkin. FCS Research Report 34, 1976. 90 pp.

KINDS OF EXPORT SALES

An export sale of grain is the result of negotiation and agreement between a potential seller and a potential buyer. The process may be initiated by either party. Contact may be established directly between the two parties or there may be one or more intermediaries at various stages of the negotiation and development of a sale.

There are several ways to classify export sales of grain. The principal groupings are based on the following:

1. Whether the cooperative is actually exporting by selling direct to foreign buyers or is "selling for export" through sales to exporters.

2. The kind of export market in which the sales are made.

3. The kind of buyer and whether the sales are commercial or at less than prevailing market prices.

4. The point at which title to the grain is transferred from seller to buyer. (This subject area is discussed later under "Export Pricing.")

Classifying sales as to whether they are "direct" or "indirect" is the most common way of differentiating between kinds of export sales of agricultural and industrial commodities. In a direct sale of grain, an exporting cooperative deals directly with a foreign buyer or his foreign-based agent and is usually responsible for shipping the grain overseas. In an indirect sale, the cooperative sells to another American firm, a U.S.-based agent of a foreign firm, or an international grain trading company that acts as the exporter; the buyer is responsible for shipping the grain overseas.

There are three kinds of grain export sales in terms of the markets served. First, there are sales on the "open market." This market has no distinct geographic boundaries. It involves a large number of sellers who independently contribute to a continuing flow of offers to sell grain, and a large number of buyers who independently contribute to a continuing flow of bids to purchase grain. This is essentially the pattern of most sales to the West European market. U.S. grain cooperatives that sell direct to foreign buyers, and handle the overseas shipping arrangements, have given primary attention to that market over the years.

The other two kinds of sales based on the market served both involve "tenders." A tender is a formal bid by an individual buyer to purchase—or a formal offer by an individual seller to sell—a specified quantity of a selected commodity under prescribed conditions. A "public tender" to buy is open to all qualified suppliers, whereas a "private tender" to buy is open to selected suppliers only.

The third grouping of sales, based on the kind of buyer served, involves their classification as (1) ordinary commercial sales to foreign private firms, (2) commercial sales to foreign governmental agencies or their agents, or (3) concessional sales to foreign governmental agencies or their agents. In the latter case, a U.S. Government subsidy assists a developing country to buy more needed grain than it could obtain at prevailing market prices.

In this report, primary attention is given to direct sales (with little reference to indirect sales), to open market sales and sales involving tenders, and to commercial sales only (not concessional sales).

The situation for a regular commercial sale differs somewhat from that for a sale to a foreign government or its representative. In the latter case, the foreign government almost always initiates action and issues a tender that goes into exceptional detail with respect to the characteristics of the commodity, shipping arrangements, and payment provisions.

Most export shipments to Japan, West Germany, the Netherlands, and other major markets are the result of commercial sales to private firms. Tenders to buy grain are issued by several West European governments, however, as well as by governments in Latin America and other areas.

A cooperative sometimes finds it difficult to bid successfully on foreign government tenders because (l) the foreign government usually wants prompt delivery; for example, within 30 days; the cooperative may find it difficult to find shipping space at reasonable cost on short notice or it may have its port storage and loading capacity fully booked for the period, (2) the foreign agency usually wants a firm (or "flat") sales price offer that is to endure for 24 to 48 hours; to protect itself with respect to volatile market prices, the cooperative may feel it is necessary to raise its offering price above the level that would be feasible if acceptance or rejection were to be made immediately by the foreign agency, and (3) it is sometimes more difficult to gain recognition by a foreign agency than by a commercial firm of a cooperative's ability and desire to supply quantities of the commodity that are above average in quality and therefore should receive a premium above the current market price.

If payment is made in foreign currency, a cooperative seller becomes involved in foreign exchange procedures. The assistance of a U.S. bank with a foreign department becomes essential. As a general rule, it is desirable for cooperatives to keep dealings in foreign exchange to a minimum. Such dealings can be speculative and require a special kind of expertise. On the other hand, exporting cooperatives cannot capitalize on some major sales opportunities if they simply refuse to consider those involving foreign currencies.

EXPORT PRICING

The final price in any export sale will be determined by agreement between buyer and seller on the point at which title to the commodity is to be transferred from seller to buyer. In a grain export sale, this involves one of three delivery terms of sale; these are almost always referred to by the following abbreviations: f.o.b., c.&f., and c.i.f.[2] The words to which these abbreviations refer will be given in the next three sections of this report.

It is customary in the international grain trade to use these abbreviations in certain other export terms. For example, an "f.o.b. price quotation" is an offering price based on f.o.b. delivery terms of sale, and an "f.o.b. sale" is a sale in which the final price has been established on f.o.b. delivery terms.

The abbreviations relate to the point of title transfer as follows:

F.o.b. The grain is loaded into an oceangoing vessel at a U.S. port.

C.i.f. The grain is delivered to a foreign port.

C.&f. The grain is delivered to a foreign port but the cost of the insurance on the cargo while it is en route from a U.S. port is borne by the buyer instead of the seller.

Each of these delivery terms of sale will be discussed within the context of an export price quotation.

F.O.B. Quotation

Cooperatives offering to sell grain for export usually quote an "f.o.b." price. F.o.b. is an abbreviation for "free on board" an oceangoing vessel at a named U.S. port. If the cooperative or the buyer desires flexibility in selection of a loading port, a general area—such as the U.S. Gulf—may be specified rather than a single port.[3]

The cooperative/seller provides the grain and pays all expenses up to and including the cost of loading the cargo into the holds of the seagoing vessel. It does not cover the costs of stowing and trimming the cargo in the holds. In some cases, the

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[2]"F.a.s." is a fourth kind of delivery term of sale. It is used frequently in export sales of many commodities but rarely for grain exports. (See definition in appendix A)

[3]Farmer cooperatives and other relatively small export firms customarily sell on the basis of a named port rather than a named range of ports. They usually do not have the flexibility in supply sources and available loading facilities to enable them to quote prices at several ports with final selection to be at buyer's option.

cooperative may be required to guarantee a specified loading rate, i.e., the quantity of grain that will be loaded into a vessel each hour or other specified period that a vessel is ready to receive it.

Many of the f.o.b. sales at U.S. port elevators are made to international grain trading companies, Japanese trading companies[4], or to Zen-Noh, the Japanese grain importing cooperative. All of these very large firms usually prefer to make the shipping arrangements.

Most shipments of grain to Japan and Italy are sold f.o.b. Most of those to the Netherlands, West Germany, and the United Kingdom are not f.o.b.

It is possible to sell grain for export on the basis of "f.o.b. barge" at an inland point in the United States. There the grain is loaded onto a barge from an inland elevator or directly from a truck or railcar. The buyer then handles the barge transportation arrangements as well as the loading of the grain into a vessel at a U.S. port. In terms of the assembly and handling of the grain by the cooperative seller, there is no difference between this kind of indirect sale for export and a similar sale on the domestic market.

C.I.F. Quotation

Cooperatives make some sales on the basis of "c.i.f." prices. C.i.f. is an abbreviation for "cost, insurance, and freight;" these are three major expense categories and refer to the value of the product when loaded aboard ship, the cost of marine insurance, and the cost of transportation to a named foreign port of destination.

The seller provides the grain and pays all expenses up to the time the cargo is unloaded over the ship's rail at a foreign port. In addition to insurance covering the usual causes of damage or loss of grain, there must be added insurance specifically covering risks related to war, strikes, riots, and civil commotions. This usually must be obtained and paid for by the seller. However, if the rate charged for war risk insurance exceeds a specified fraction of the value of a shipment of grain, the excess will be for the buyer's account. The buyer must pay unloading charges from the ship's rail overboard unless an exception to c.i.f. terms is mutually agreed on by buyer and seller.

Most foreign buyers of less-than-shipload quantities prefer to buy grain on c.i.f. terms; they prefer to have the U.S. seller handle overseas shipping arrangements.

The following expenses normally are incurred by a cooperative in making a c.i.f. sale and are in addition to those involved in an f.o.b. sale:

1. Cost of leasing space in a vessel for the overseas shipment.
2. Commission paid by charterer (the cooperative) to a "chartering agent" representing it in negotiations to develop a "charter party."
3. Cost of discharging the cargo from the ship's holds to the ship's rail (and from the ship's rail overboard if this has been agreed to), plus the costs of "superintendence" or supervision of weighing and other operations at the overseas port of discharge when payment is to be based on delivered weight.
4. Loss of weight of cargo during shipment, if payment is to be made on the basis of the weight at time of discharge at a foreign port.
5. Cost of insurance to cover potential losses or damage to the grain while it is in an oceangoing ship.

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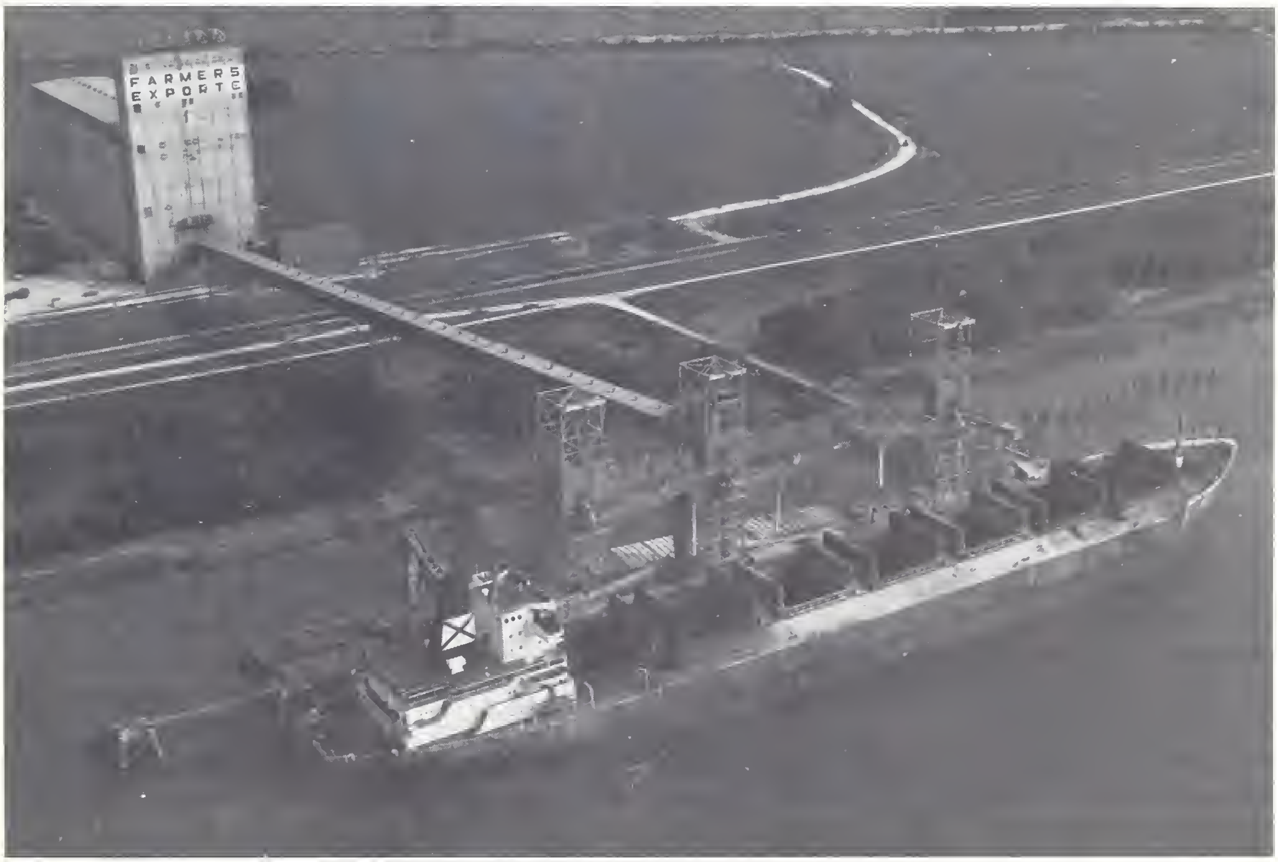
[4]A "Japanese trading company" differs from an "international grain trading company" in that it (1) is primarily interested in importing grain or other commodities for consumption in Japan, and in exporting Japanese industrial commodities, (2) does not have a history of specialization in the international grain trade, (3) does not act as an exporter of grain in each of many supplier countries and act as an importer of grain in each of many user countries, and (4) tends to be a more highly diversified business—although this distinction is less apparent than it was a few years ago.

Adequate handling facilities are important at overseas ports as well as those in the United States. This is a scene at the Port of Bremen, West Germany. Here feedstuffs are received from U.S. farmer cooperatives, and other suppliers, and stored or processed in compounding plants.



This port elevator is at Ama, La., and operated by the Farmers Export Company. Soybeans and grains are shipped to many distant parts of the world.

6. Interest cost involved in financing the transaction from the moment the grain is shipped until the time the grain is paid for in full by the buyer(s). (In sales to Western European destinations, for example, this usually means an interest charge levied against the value of the cargo for 8 or 9 days. With special service arrangements to expedite payment, the period can be reduced by several days).

7. Interest cost on ocean freight if the freight is paid for by a third party before the cooperative receives the payment(s) made by buyer(s) for the cargo.

8. Bank handling and collection charges.

9. Commission paid by the cooperative to its overseas representative. (This may be shared by the cooperative's representative with foreign brokers representing foreign users buying parcels of a cargo.)

10. Incidental expenses such as the cost of completing and handling additional documents and the cost of more numerous and longer international communications.

Thus a c.i.f. sale is substantially more complex than an f.o.b. sale. There is considerably more responsibility for the cooperative exporter and greater opportunities for something to "go wrong."

Ocean freight is the first expense item listed above and it is the number one problem. In a c.i.f. sale, the shipper must estimate that cost several months before a ship can be chartered and a freight rate established as a result of negotiation with a shipowner or his agent. No one knows what freight rates will be several months hence.

If a sale is made and the estimated freight rate turns out to be the same as the actual rate, the shipper will have the net margin he anticipated. If the freight estimate is higher than the actual rate, the shipper's net margin will be greater than anticipated. But if the freight estimate is too low, the shipper's margin will be reduced and there may even be a net loss on the shipment.

If a buyer in an f.o.b. sale underestimates the future freight rate, the cooperative shipper is not affected.

If on any given day the future freight rate for a c.i.f. quotation is estimated conservatively—on the high side—a cooperative shipper may well face the prospect of a lower return at the U.S. loading point than it could obtain from an f.o.b. sale.

During a period of rapidly rising ocean freight rates it is especially difficult to make money on c.i.f. sales. Not only is it not easy to estimate future shipping rates precisely, but also it is a far from simple task to convince buyers that further increases in rates are probable—and the prices they pay must be raised accordingly. Conversely, however, a period of rapidly declining ocean freight rates may offer opportunities for increasing the shipper's net returns.

A period of relatively stable freight rates at a high level also may offer opportunities for increasing net returns. Shipowners' margins tend to be wide at such times and it may be possible to negotiate discounts from prevailing rates.

A part of the problem for cooperatives arises from their relatively small size. For example, a small shipper often may find it difficult to obtain a minimum rate in the ocean freight market. (This situation, and other advantages associated with large-scale operations, are discussed later under "Increasing Scale of Operations.")

As indicated by the foregoing discussion, c.i.f. sales involve assumption of substantial risks by a cooperative shipper and require special expertise on its part. There is no assurance that a particular cargo sold c.i.f. will return as much to the cooperative as an f.o.b. sale. However, c.i.f. sales made in a continuing program are likely to have three major benefits. The cooperative may: (1) Gain a net margin on the chartering of vessels during the year[5], (2) more easily establish a reputation overseas for the dependable quality of its product and reliability of its performance, and thus enhance

[5]See discussion of "despatch" and "net despatch" in the section on "Despatch and Demurrage."

the value of its product in the minds of overseas buyers, and (3) obtain greater flexibility in operations than is possible with f.o.b. sales.

Flexibility in c.i.f. sales may be of benefit in four ways. First, the cooperative will have a greater number and wider selection of potential buyers than if it sold on a f.o.b. basis only. Second, the cooperative can choose the shipment period and can decide when to ship during the period. In some cases, it will be desirable to ship early in the period to keep financing costs on inventories to a minimum or to handle most efficiently the loading of another ship for another sale. In other cases, the cooperative may wish to ship near the very end of the period. Third, during a period of declining commodity prices or declining ocean freight rates, a buyer may choose to defer receipt of grain purchased f.o.b. He then has more flexibility than he would have in a c.i.f. sale; this may work to the disadvantage of the cooperative. Fourth, even if most sales are made f.o.b., consummating some c.i.f. sales will provide a "yardstick" for comparing net returns from f.o.b. and c.i.f. sales and for determining ocean freight conditions. As a result, the cooperative management is in a stronger bargaining position in negotiating its f.o.b. sales.

C.&F. Quotation

The third kind of export price quotation is termed "c.&f." This is an abbreviation for "cost and freight" to a named foreign port of destination. The seller provides the grain and pays all expenses up to the time the cargo is unloaded over the ship's rail except the cost of the insurance on the commodity while it is in the oceangoing vessel. The buyer pays for the marine insurance; this is the only difference between a c.&f. and a c.i.f. quotation.

In general, the c.&f. quotation is used less frequently than either the f.o.b. or the c.i.f. quotation in U.S. grain sales to commercial buyers. Some cooperatives use the c.&f. quotation much more frequently than a c.i.f. quotation. Further, the c.&f. quotation often is used in sales to purchasing agencies of foreign governments.

The chances for greater gains or losses than occur under f.o.b. sales are essentially the same for c.&f. sales as for c.i.f. sales, as long as other conditions of sale —such as dependability of buyers and efficiency in unloading—do not differ.

Final Sales Price

The development of final prices for export sales of commodities such as grain, feed meals, and cotton that are sold in bulk in huge quantities is a complex proceeding. It is more difficult to understand or explain that process than the export pricing of raw and processed foods that are sold in relatively small quantities.

No attempt will be made in this report to explain in full the development of a final sales price. Fortunately, their experience in the domestic market enables many cooperative grain managers to make the transition rather smoothly from domestic pricing to export pricing.[6]

A few general comments may put the grain pricing process into perspective. The final sales price will, as noted earlier, always be related to a delivery term of sale; i.e., f.o.b., c.i.f. or c.&f.

In some export sales of grain, the final price is specified in the sales contract between the seller and the buyer. This is called a "fixed" (or "flat" or "firm") price.

In other instances, the price is not fixed and the sales contract will contain pro-

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[6]A future research study might well be directed toward a thorough analysis of the pricing and financing techniques and requirements involved in grain export sales. The results could be of value to employees and directors of grain cooperatives who have not yet acquired a degree of expertise in these subject areas.

Members who represent shipowners meet on the floor of the Baltic Exchange with representatives of persons who wish to charter oceangoing ships. The Exchange is a private institution in London, England, and for many years has functioned as the world's most important international freight market.

visions for setting the final price at a future date. Depending on circumstances, either the seller or the buyer, or both, may engage in hedging transactions in the futures market.[7] In some cases, there may be an exchange of futures between buyer and seller to fix the final price.

"Basis" (or "premium") pricing is the usual method for establishing the final price at a later date. It involves the difference between the current price of Chicago futures for the grain and the current f.o.b. price of the grain, at a designated loading port, both at the time of sale and later during a period designated in the sales contract.[8]

In a c.i.f. sale of a cargo in parcels to a number of buyers, the prices to individual buyers may be established on different days. In this event, prices among the buyers normally will vary.

The unit of measurement in grain export pricing is almost always the metric ton. The long ton historically has been the unit for sales to the United Kingdom, but this will be replaced by the metric ton on August 1, 1976.

OVERSEAS SHIPPING ARRANGEMENTS

The international grain trade traditionally operates on the basis of large volumes of product and very narrow operating margins. The cost of ocean transportation is of vital importance. A cooperative that successfully manages export shipping arrangements can enhance its chances for realizing a net margin on its entire export program.

In domestic marketing, it is customary to think of "freight" in terms of a quantity of a commodity that is being transported from one location to another. In the grain export trade, "freight" usually refers to the cost of shipping cargo overseas—the number of long tons of grain multiplied by the freight rate per long ton equals the "ocean freight."

Some of the problems involved in ocean shipping were mentioned previously in the section on "C.i.f. Quotation." This section will describe ocean shipping arrangements in general terms and focus attention on additional characteristics of shipping as a specialized phase of export marketing.

Chartering

To "charter" a vessel is to rent it for a voyage (a "voyage charter") or for a specified period of time (a "time charter"). Cooperatives and other relatively small shippers usually find that a voyage charter best meets their needs. Sometimes it is possible to adopt a third alternative; i.e., to charter a named vessel for consecutive voyages from a U.S. port.

Chartering is a highly specialized business and a successful negotiation for a low "freight"—or shipping cost—can mean the difference between a gain or a loss on a sale for overseas delivery.

The people involved in chartering must have had intensive training and long experience in the business. The world's principal grain freight market is in London and they must be in touch with that market during every business day. In addition, they must keep informed about developments on the grain freight market in New York City. Such specialists may be employed by a shipowner or a shipper but usually they are not employees of anyone. Customarily, they are called "chartering agents" (or "chartering brokers") and paid a commission for their services.

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[7]Certain related terms are defined in appendix A. Included are "cover shorts," "go long," "go short," "lift a leg," "make a straddle," "make a switch," "nearby contract," "position," and "sell-out longs."

[8]For a description of this pricing technique see: Pauli, Peter B. Basis Pricing Complicates Export Reporting. In U. S. Dept. Agr. Foreign Agr. Serv. Foreign Agriculture XIII(26): 8-10. June 30, 1975.

A "charter party" is a written contract between a shipper (or his agent) and a shipowner (or his agent) to spell out the terms of lease of a specified ship (or use of shipping space on the vessel) and pickup and delivery of a cargo. The shipper is the "charterer." A U.S. cooperative is directly concerned with the terms of a charter party only if it has assumed responsibility for delivering the grain to a foreign port. In such case, management must be certain that it knows, understands, and is ready to comply with every provision in the agreement.

The terms of a charter party generally conform to a basic form[9] but many provisions, including the freight rate, are subject to negotiation. These are developed by a chartering agent (or broker) representing the shipowner and a similar agent representing the cooperative shipper.

Control of a U.S. port elevator, through ownership or long-term leasing, assists in achieving efficiency in handling the grain and in using ocean transportation. The cooperative is assured of having space available as needed, timing the arrival of grain for loading into a specific vessel is relatively easy, the chance of mixing members' grain with other grain of lower quality is eliminated, and the loss in weight of product during the loading process presumably can be kept to a minimum.

Equipment and techniques for unloading grain vary greatly according to the foreign port of destination. At one extreme, bags of wheat or rice may be lifted over the ship's rail at the port of a developing nation, piled onto a wharf, and exposed to the elements and rodents until such time as local transportation and storage are arranged. At the other extreme, the ship may swing at anchor at a berth in the Port of Rotterdam and be unloaded by a "floating elevator." The latter is a large, special piece of equipment on a movable barge that unloads the grain under hydraulic pressure. The grain is weighed in the elevator, in batches, in the presence of a representative of the seller and a representative of the buyer(s). It then is loaded into waiting "lighters"—boats or barges, usually flat-bottomed—that are used to transport the grain to port silos or inland destinations selected by the buyer(s).

A prolonged strike by U.S. or foreign port workers can have a devastating effect on an export sales program. Fortunately, such strikes are not common at the major grain discharge ports in Western Europe and Japan. Storms at sea or in port also can disrupt loading or unloading schedules but these are natural disasters and beyond the control of man.

Despatch and Demurrage

As noted earlier, one of the potential benefits to a cooperative selling on a c.i.f. or c.&f. basis is the opportunity to gain "despatch." It is also possible, however, to incur "demurrage."

In essence, "despatch" is a reward paid by the shipowner to the shipper for loading and/or unloading a vessel in less than the time agreed upon when the ship was leased. "Demurrage" is a penalty for taking more time than that originally agreed on as necessary for loading and/or unloading. (The reason for using the term "and/or" is that a charter party may specify either (l) a specific number of days for loading and a specific number of days for unloading, or (2) a total number of days to cover both loading and unloading).[10]

The rate of despatch usually is one-half that for demurrage.

Opportunities to earn despatch vary among U.S. port elevators and in the various foreign ports of destination. They may also vary over time at any particular loading or unloading point.

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[9]For further details, see the definition of "charter party" in appendix A.

[10]Further technical details about the calculation of the amounts of despatch and demurrage are in appendix A. (See "despatch," "demurrage," "laytime," and "weather working day.")

A shipper will try to gain despatch on every shipment. This is not possible over a period of time because the shipper cannot control the weather and other variable factors. Therefore, the basic objective is to earn more money from despatch during a season or year than is lost in demurrage payments. Such a yearend balance is termed "net despatch."

If the cooperative is the shipper, and net despatch is earned, the additional money goes to the cooperative and its grower-patrons.

Documentation

The preparation and handling of documents is an important part of export marketing. It is a highly specialized operation in which relatively few people are involved.

Exports of grain, soybeans, and all other commodities, industrial as well as agricultural, are subject to governmental statistical and destination controls. The "shipper's export declaration" is a form on which information must be entered to enable the Government to publish statistical summaries about the export trade. The form is issued by the U.S. Department of Commerce.

Exports of grain and soybeans to certain countries are prohibited.[11] A "destination control statement" must appear on every bill of lading and invoice. This is a statement of intent by the buyer and the seller to the effect that the cargo is not destined for any country to which exports are prohibited.

The "charter party" is a key document when the cooperative is involved in overseas shipping arrangements. It has already been discussed in the section on "Chartering."

Two other important shipping documents are the bill of lading and the checklist.

The "bill of lading" shows that the commodity described in the "invoice" has been shipped and is in possession of the carrier. A "clean bill of lading" does not have any adverse notations made by the carrier relating to the condition of the commodity shipped.

The "checklist" is a message from the cooperative charterer to its agent after the loading of the ship has been completed. It provides the following information: Stowage (if more than one commodity is on board), date and number of bill of lading, charterer's invoice number, charterer's agent's contract number, inspection certificate number, weight of cargo, and weight certificate number.

Not all documents are directly a part of ocean shipping operations, of course. For example, a sales agreement, or "contract of sale," is an essential business document. It is discussed briefly in the introduction to the subsequent section on "Sales and Service Techniques."

Financial instruments—such as a "letter of credit" and a "draft"—and certain other important documents are also a part of export selling. Brief definitions of some of them are in appendix A.

SALES AND SERVICE TECHNIQUES

The sales agreement or "contract of sale" is the document on which sales and service techniques and operations are based. It is a written agreement between buyer and seller that sets forth the terms of sale. The form used ordinarily will vary between kinds of sales and commodities as follows: F.o.b. sale of grain or soybeans - "NAEGA Contract No. 2;" c.i.f. or c.&f. sale of grain - "GAFTA Contract;" c.i.f. or c.&f. sale of soybeans - "FOSFA Contract." The names of the trade associations that issue these forms are given in appendix A under the definitions of the three basic forms.

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[11]In early 1976 these countries were Cuba, North Korea, North Vietnam, South Vietnam, Cambodia, and Rhodesia.

These forms are not always used. Some buyers use their own forms, particularly foreign state trading agencies buying on a c.&f. basis and buyers in Latin America.

Brief descriptions of these three technical areas of sales and service operations are given next in this report: coordinating sales and shipments, obtaining overseas representation, and increasing scale of operations. The descriptions are designed to develop an understanding of the subject areas rather than to provide a blueprint for an individual association.

Coordinating Sales and Shipments

Coordinating the assembly, inland transportation, storage, and overseas transportation of grain with its sale to buyers at a U.S. port elevator or at foreign ports is a difficult and demanding job.

If a cooperative owns or leases a port elevator, a major objective is to keep that elevator operating at or near capacity throughout the principal shipping season.

A grain export program consists of a series of separate but integrated sale-and-shipment operations. In a small program these may take place consecutively. In a relatively large program, at any given time some operations will be just starting, some nearing completion, and others at interim stages of development.

Some export sales are made for prompt delivery; these usually involve f.o.b. terms. Other sales are made for delivery at relatively distant dates; these may be either f.o.b., c.i.f., or c.&f. The extent to which a cooperative chooses to emphasize sales for prompt delivery or sales for delivery at relatively distant dates will depend on its analysis of current and anticipated conditions in the changing markets for grain and ocean-shipping space.

Less-than-shipload sales made f.o.b. to international grain trading companies and others, plus c.&f. sales to agencies of foreign governments, often are developed on rather short notice.

Ideally, an exporting cooperative will have an assured supply of grain sufficient to enable it to fulfill the terms of a sales contract. The grain may be either on hand or in the inventories of local associations and firmly committed to the exporting association. However, some grain may be purchased on the open market if necessary to complete the inventory needed.

In most instances, the grain is sold to foreign buyers several months prior to actual loading into an oceangoing vessel.

If the cooperative is selling f.o.b., the entire cargo likely will be sold to one buyer. If it is selling c.i.f., the cargo usually will be sold in parcels to a number of buyers. There are exceptions to these general patterns of trade, of course.

In a c.i.f. or c.&f. sale, ocean freight space is not actually chartered by or for the cooperative until several weeks—perhaps 4 to 6—before the time of loading.

The word "position" has special significance in the grain export trade. It is a technical term and refers to an export firm's current situation with respect to total sales commitments, supply commitments, arrangements and loading schedules for future export shipments, and frequently—though not necessarily—its involvement in the futures and ocean freight markets. The larger its position, the more flexibility an export firm has in switching grain supplies and ship loadings under various sales contracts to maximize its overall net margin.

The concept of selling full cargoes direct to a foreign user or processor is attractive because of the possibility of reducing marketing costs. However, most users —including those in Western Europe and Japan— prefer to reduce their storage costs by arranging for frequent deliveries of relatively small quantities. Foreign import brokers handle most of the purchase and local delivery arrangements for the users in Western Europe. The trading companies and importing cooperative, Zen-Noh, handle those for users in Japan.

Long-term contracts between individual sellers and individual buyers are not common in the international grain trade. They may become a feature of cooperative exporting in the future. They could cover a period of several years, set a minimum annual volume for shipment by the seller, set a minimum annual volume of purchases by the buyer, and provide pricing formulas to reflect changing conditions in world markets. Such export sales contracts would require firm commitments by individual farmers to their local associations, and by the local associations to the exporting cooperative. At any marketing stage, a supply commitment presumably would not require a commitment of total supplies.

More detailed product specifications will emerge if long-term sales contracts are developed. Conversely, development of long-term contracts will spur adoption of more detailed product specifications.

Obtaining Overseas Representation

Professional staffs are needed to handle all of the sales and delivery details involved in delivering shipments of grain to foreign buyers. To obtain the necessary expertise in foreign markets, a cooperative may arrange with a selected foreign firm to act as its overseas representative (or "agent") and to provide specified services.

There are several basic alternatives with respect to the services performed by overseas representatives. First, a cooperative may have such a representative in each major foreign market in which it seeks to sell commodities, several representatives with each serving several markets, or one representative for sales to all foreign destinations. Second, it may use its representative(s) for c.i.f. and c.&f. sales only and handle all f.o.b. sales on its own, or it may ask its representative(s) to handle all c.i.f. and c.&f. sales plus those f.o.b. sales going to certain major areas.

A cooperative usually will have no more than one overseas representative in a designated foreign market. Similarly, the representative usually will not handle the same commodities for other U.S. suppliers, unless the cooperative gives prior consent in each instance.

The overseas representative may serve a cooperative merely as a resident salesman or as a foreign import broker with special ties to the cooperative. He may also perform additional services.

What might be called a "full service" overseas representative can be an integral part of a cooperative's export program. The cooperative is the shipper, and bears the responsibility for all major decisions in developing and maintaining the export program, but the overseas representative provides all or most of these vitally important technical services:

1. Estimates, at the time the cooperative decides to develop a c.i.f. or c.&f. sale, all costs to be incurred beyond the point of loading a vessel at the U.S. port of embarkation.

2. Locates a foreign buyer desiring a full cargo and sells the grain to him, or locates enough overseas brokers representing foreign buyers wishing to buy "parcels" (portions of a cargo) to make up a full cargo and sells the grain to them.

3. Charters a vessel to carry the grain, with the cooperative signing as shipper, if it is a c.i.f. or c.&f. sale.

4. Keeps close surveillance of the movements of the chartered vessel as it heads toward the U.S. loading port, whether the sale is f.o.b., c.i.f., or c.&f., and of its movements from the U.S. port to a foreign port of discharge in the case of a c.i.f. or c.&f. sale. This service can be very important with respect to earning despatch, particularly with respect to discharge of the cargo.

5. Arranges for discharge of the grain at the foreign port and receipt of it by c.i.f. or c.&f. buyers.

6. Assists the cooperative in collection of payments from foreign buyers, if neces-

sary. (At his option, the overseas representative may guarantee payment by buyers. This can be a valuable service.)

7. Provides a detailed accounting of the sales expenses and receipts for each cargo sold c.i.f. or c.&f.

8. Acquires and transmits, regularly and quickly, vitally important information about changing conditions in the overseas market.

Few overseas representatives are able to provide a full service program. Such a firm could act, in effect, as a cooperative's export sales department. In that situation, the headquarters of the firm might be located at any one of several important ports in this country or at a major port in a foreign country.

Increasing Scale of Operations

The international grain trade is dominated by half a dozen huge international grain trading companies that are not controlled by farmers. These companies have developed in a competitive environment in which the "economies of scale" have had tremendous significance. In other words, there are advantages associated with large-scale operations that have stimulated further growth by firms that have been willing and able to assume extensive marketing responsibilities and risks.

Leaders of U.S. farmer cooperatives marketing soybeans and grains are becoming increasingly interested in the basic elements of large-scale growth in export sales. There appear to be four of these elements involving a number of technical considerations. The elements are:

1. Low average fixed costs per unit of volume handled.
2. A high degree of operating flexibility.
3. Significant bargaining power in chartering.
4. Improved services through worldwide marketing system.

Costs per unit. As is well known in domestic marketing, certain costs of doing business are relatively "fixed." An increase in volume—up to a point, at least—does not result in a proportionately large increase in the total marketing cost. Opportunities in the international grain trade for lowering average costs per bushel (or per metric ton or long ton) by increasing volume appear to exist to a greater degree than comparable opportunities for cost reductions per unit in exporting most other agricultural commodities.

Small reductions in unit costs of physically handling grain—assembling, storing, shipping, and distributing—can add up to a significant reduction overall. Additional cost reductions are possible by obtaining money at low interest rates to finance shipments, and by handling foreign exchange transactions with efficiency and dispatch.

Operating flexibility. A large volume of business permits utilization of alternate sources of supply at different locations, and greater control of loading facilities at alternate loading ports, and this helps to minimize costs and maximize service. It also provides opportunities to:

Combine export shipments of two or more grains in order to use large vessels with low rates per ton.

Manage shipping schedules for fleets of vessels to minimize costs for deliveries to various foreign ports.

Arrange a continuing flow of grain to a buyer in full shiploads or in parcels.

Obtain vessels by low-cost voyage charters involving transportation of miscellaneous commodities from a grain discharge port to various other foreign ports and then back to the grain loading port.

Shift deliveries from one foreign market to another as price relationships change.

Use a worldwide network of representatives to serve low-volume, wide-margin buyers as well as large-volume, low-margin buyers.

Time sales to the European Community to minimize import levy payments made by overseas affiliates.

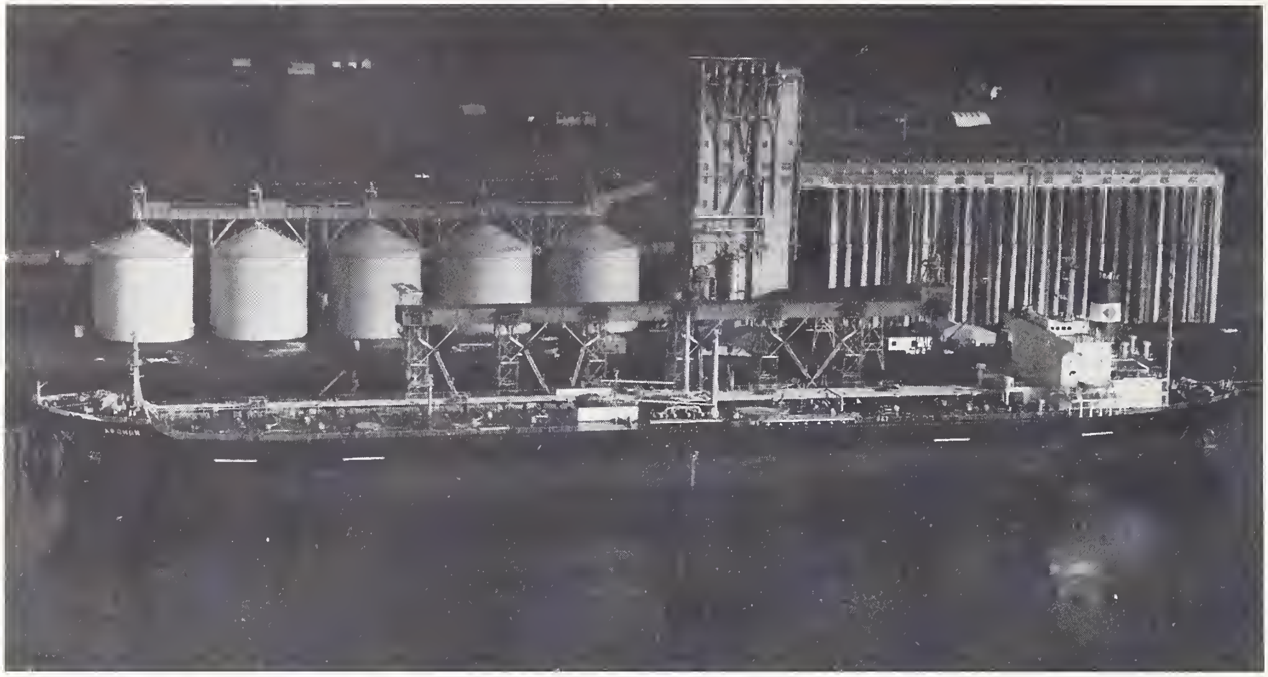
There also are several advantages arising from selling at least a part of the total export volume on c.i.f. or c.&f. terms. (See preceding section on "C.i.f. Quotation.") These advantages increase in significance as total volume increases. Further, diversification into related or even unrelated business activities may become feasible for a large-scale enterprise.

Bargaining power. The advantages of controlling a large volume in negotiating sales are rather obvious but less well known are the advantages related to obtaining low ocean freight rates. These are some of the latter: (1) The largest vessels may be used and these usually have the lowest rates, (2) the use of many vessels is controlled, through ownership or leasing, and (3) bargaining power with shipowners is great when negotiating each charter party because a large-volume shipper may take a time charter providing for a series of voyages for a vessel calling at various ports and handling non-grain cargoes on some voyages, or because the shipper may, during a rather short period, need several vessels owned by one shipowner.

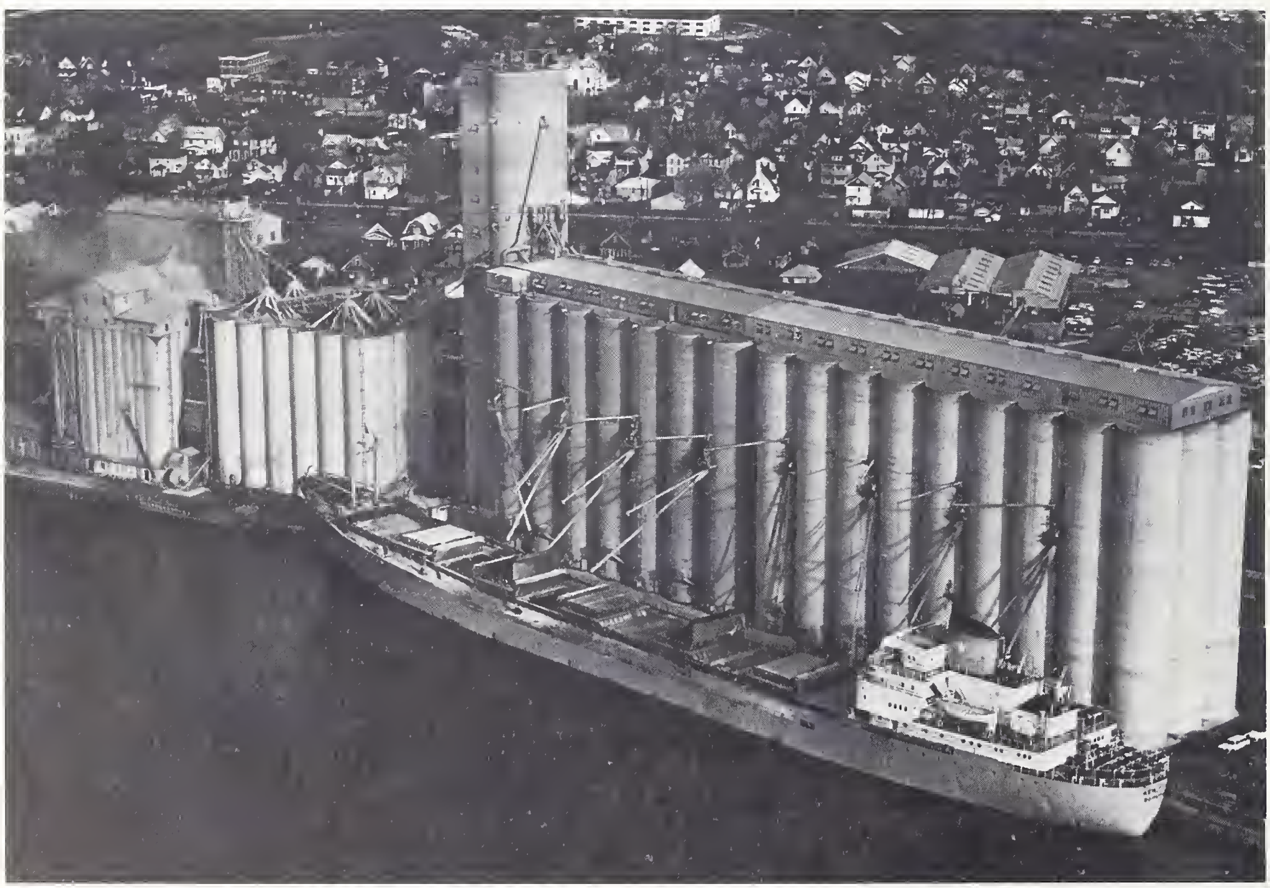
Worldwide marketing system. Concurrent with growth in volume of sales are increases in established facilities, programs, and staffs consisting of experienced personnel. These increases may occur at all marketing stages and in all major markets. They are a significant factor in making and servicing sales, and in keeping customers satisfied. They also provide for maintaining an accurate and rapid flow of market intelligence information to and from the home office.

With respect to facilities, for example, an opportunity might arise where a cooperative—or several cooperatives exporting the same or different kinds of grains—shipped substantial quantities of grain on a continuing basis to a key port overseas. The cooperative(s) could build, buy, or lease a storage silo at the foreign port. This would facilitate sales to many buyers of different kinds and sizes.

Several U.S. farmer cooperatives have developed successful grain exporting programs but none now is large enough to capitalize fully on use of these basic elements of large-scale growth.



North Pacific Grain Growers, Inc., Portland, Oreg., moves grain into world trade through its Kalama, Wash., elevator.



Soybeans are being loaded here at Mid-States Terminals, Inc., a cooperative grain terminal. The Toledo, Ohio, facility has access to the St. Lawrence Seaway. While Mid-States Terminals' primary export is soybeans, it also ships corn and wheat. Construction was underway in late 1976 to expand this facility.

APPENDIX A

DEFINITIONS OF EXPORT MARKETING TERMS

This glossary presents definitions of many of the terms used in the international grain trade. It is concerned primarily with terms involved in commercial export sales contracts and in contracts for leasing oceangoing vessels. Many but not all of the possible variations in such contracts are covered.

Some of the definitions—such as the one for "charter party"—are basic and need to be understood by all persons involved in the decisionmaking process for an export program. Many of the terms pertain to highly technical provisions in charter parties; the definition of a term such as "amended centrocon strike clause" is not likely to be of interest to policymakers but employees with responsibility for approval of charter parties need to be aware of the significance of each detail.

This glossary supplements and complements the following publication:

Henderson, Harry W. Dictionary of International Trade. U.S. Dept. Agr., Foreign Agr. Serv., Agr. Handb. 411. Apr. 1971. 170 pp.

A copy of the above publication should be available to every cooperative leader and employee who bears responsibility for exports of foods, feeds, and fibers. It presents definitions of a great many terms used in international trade.

The definitions in this glossary will (1) facilitate an understanding of certain terms within the context of a farmer cooperative grain export program, and (2) provide an explanation of various technical terms not covered in the more general publication issued by the Foreign Agricultural Service.

When in a definition a key word or phrase is enclosed in quotation marks, in most cases the word or phrase is itself defined elsewhere. However, a word or phrase that is defined elsewhere is not always enclosed in quotation marks. It should also be noted that in this series of definitions, the words "cooperative," "seller," "supplier," and "shipper" are synonymous.

It must be clearly understood that this glossary is no more or less than a reference tool or work aid for cooperatives. The definitions have no "official" status and thus are not intended for use in resolving a misunderstanding or dispute should one arise between the parties involved in a particular transaction.

More extensive descriptions of the delivery terms of sale—f.o.b., c.&f. and c.i.f.—are given in *Revised American Foreign Trade Definitions-1941,* a 16-page pamphlet developed in 1941 by the National Foreign Trade Council, 10 Rockefeller Plaza, New York, N.Y. 10020.

A&H range. Includes the ports of Antwerp, Belgium, and Hamburg, Germany, and all ports between that are capable of handling grain cargoes.

Amended centrocon strike clause. This clause in a "charter party" provides that demurrage cannot be charged for various specified delays beyond the control of the charterer but the time lost can be deducted in settling despatch money accounts. (See "centrocon charter.")

Appropriation. The "appropriation" is a written statement (based on the "checklist" provided by the shipper) that is made by the charterer's agent to the buyer to provide the latter with information about a c.i.f. or c.&f. shipment. It is made within a specified time (several days) after the date of the bill of lading. The information contained in the "appropriation" consists of the name of the vessel, the approximate quantity of grain loaded, and the date of the bill of lading. It enables the buyer to start making necessary arrangements for receiving the shipment when it arrives at the discharge port.

(Additional information and various documents needed by the buyer are supplied at other times.)

Ballast voyage. A voyage made without cargo.

Baltic Exchange. A private institution in London that functions as the world's most important international freight market. Some of its members represent shipowners and others represent persons who wish to charter ships. The Exchange provides a place at which the members may gather to negotiate charters for aircraft as well as sea vessels. (See "freight.")

Baltimore Form C Bill of Lading. A printed form usually used for preparing the bill of lading for a shipment of a full shipload of grain from a U.S. port. (See "bill of lading.")

Baltimore Form C Grain Charter Party. A printed form commonly used for shipments of grain from U.S. ports. It is often modified substantially in order to be better adapted to a particular situation. (See "charter party.")

Basis pricing. A method for establishing the final sales price at a later date according to specific provisions in the contract of sale. Involves the difference between the current price of Chicago futures for the grain and the current f.o.b. price of the grain, at a designated loading port or geographic range of ports, both at the time of sale and later during some designated period prior to the time the grain is loaded into an oceangoing vessel. (May also be termed "unfixed," "premium," or "formula" pricing.)

Berth. Usually means a place at a "jetty" for a ship to load or unload. May mean a place in a harbor for a ship to swing at anchor; in some cases, the ship is loaded or unloaded there. (See also "grain berth" and "ordinary commercial berth.")

Berth charter. A "charter party" that provides for delivery of grain to a specified grain berth. (See also "port charter" and "whether in berth or not.")

Berth terms. A phrase in a "charter party" that means the usual practices and conditions for the regular shipping lines operating in the international grain trade shall prevail. In general, this means that loading and discharging expenses will be borne by the shipowner unless there is specific provision to the contrary. (Same as "liner terms.")

BFC Saturday clause. This clause in a "charter party" provides for conditions under which a Saturday does or does not count as "laytime."

Bill of exchange. Legal name for a seller's "draft."

Bill of lading. A document to show that the commodity described in the "invoice" has been shipped and is in the possession of the carrier. A "clean bill of lading" does not have any adverse notations made by the carrier relating to the condition of the commodity shipped. The "Baltimore Form C Bill of Lading" usually is used for full shiploads and a "liner bill of lading" for partial loads.

B/L. Abbreviation for "bill of lading."

Bladings. Abbreviation for "bills of lading." (See also "Bs/L.")

Both ends. Agreed upon shipping arrangements are in effect at both the loading port and the discharge port.

Both to blame collision clause. This is a clause in a "charter party" to provide that, under certain conditions, the owner of goods shipped may share the loss in case the vessel is in a collision. (If a grain shipper has a portion of his cargo unsold in a c.i.f. sale, the risk for that quantity may be covered by an insurance policy held by him or his agent.)

Brokerage. Provision is made for payment by the shipowner of a commission at a specified rate or rates to a "chartering agent" involved in arranging a charter.

Bs/L. Abbreviation for "bills of lading."

Bufoc clause. See "destination control statement."

Buy c.i.f. To "buy c.i.f." is a technique that may be used by any grain exporter to avoid or reduce losses when unexpected developments occur. When a seller of U.S. grain finds it difficult to make a c.i.f. shipment at the time scheduled, or for some other reason finds it profitable to change plans, he may buy grain c.i.f. at the foreign port to which his grain was destined. In this event, the grain he purchased will be delivered to the foreign buyer and his grain may never leave the U.S. Similar actions can be taken with respect to f.o.b. sales (at loading port) and c.&f. sales (delivery port). However, cooperatives customarily sell grain (and other feedstuffs) for export with the intention of fulfilling their commitments with quantities of the commodity supplied by their members. Even if they have to buy some quantities on the open market to complete a cargo on time, they normally buy domestically and hence have a greater degree of quality control than is possible in a c.i.f. or c.&f. purchase.

Canceling date. The vessel mentioned in a "charter party" must be ready to load not later than a specified date, called the canceling date, or the charterers are entitled to cancel the charter party. Charterers are not entitled to indemnities, unless it can be established that the shipowner deliberately misrepresented the expected time of readiness or made no attempt to have the vessel arrive on time. If the delay were not caused by circumstances beyond the owner's control, and no time limit were set in the charter party for deciding on cancellation, the owner would have to send the vessel to the loading port whenever it was ready and the charterer would not have to decide whether or not he was going to cancel until he had received "notice of readiness."

C.&f. The abbreviation for "cost and freight" via carrier to a designated location; for an overseas shipment of grain the carrier is an oceangoing vessel and the location is a named port of destination or a named geographic range of foreign ports. Under this delivery term of sale the seller provides the grain and pays all expenses up to the time the cargo is unloaded over the ship's rail except the cost of the insurance on the commodity while it is in the oceangoing vessel; such insurance is obtained and paid for by the buyer. The buyer also pays the cost of unloading from the ship's rail overboard. (In some instances, but only by special and mutual agreement between seller and buyer, the seller will pay not only the cost of discharging the grain from the ship's holds to the ship's rail but also the cost of unloading the cargo from the ship's rail overboard. This is an exception to c.&f. terms rather than an optional clause.) (See "free in," "free out," "gross terms," and "net terms.")

C.&f. price. A seller's offering price, buyer's bid price or final sales price based on the "c.&f." delivery term of sale.

C.&f. sale. A sale based on the "c.&f." delivery term of sale.

Cargo. Quantity of grain (or other goods) transported on a vessel for a charge agreed upon prior to shipment.

Cargo capacity. Same as "carrying capacity."

Cargo carrying capacity. Same as "carrying capacity."

Cargo deadweight. Same as "carrying capacity."

Cargo lien. A provision in a "charter party" to protect the shipowner that reads, "Vessel to have a lien on the cargo for all freight, deadfreight, demurrage, or average."

Cargo liner. Same as "common carrier."

Carrying capacity. The capacity of a vessel for carrying cargo, in terms of long tons, when loaded to her permissible draft (draught) in salt water.

Centrocon arbitration clause. This clause in the "Centrocon charter" provides for arbitration of disputes in London.

Centrocon charter. This is a form of "charter party" approved in the United Kingdom for shipments of grain from the River Plate. It is not used for shipments from the U.S., but the "Centrocon arbitration clause," "amended Centrocon strike clause," and "Centrocon lighterage clause" may be incorporated into charter parties used for U.S. grain exports.

Centrocon lighterage clause. A self-explanatory clause in a "charter party" providing that the receiver of the cargo has to pay the cost of "lighters" if it is necessary to use lighters to unload part of the cargo to enable the vessel to reach its berth.

Cesser clause. This clause in a "charter party" is used to terminate the charterer's liability under a voyage charter party. The wording often is as follows: "Charterer's liability under this charter to cease on cargo being shipped, except for payment of freight, deadfreight, and demurrage."

Charter. Same as "charter party."

Charterer. The "charterer" is the shipper of grain who signs the "charter party." In the case of an f.o.b. sale, the charterer is the overseas buyer of grain; in the case of a c.i.f. or c.&f. sale, the charterer is the U.S. seller of grain.

Charterer's agent. A grain "charterer" customarily appoints a "charterer's agent" to represent him in (l) negotiations related to a "charter party" or (2) to handle the ship's business when the fixture is on an "f.i.o." basis. If in the second case he is also the owner's agent, one-half his fee is paid by the owner; if the owner has his own agent, then the charterer pays the entire fee of the charterer's agent. (See also "chartering agent" and "ship's agent.")

Chartering agent. A "chartering agent" (or broker) may represent either the "charterer" or the shipowner in negotiations related to a "charter party." The "charterer's agent" is the representative of the charterer and the "owner's agent" is the representative of the shipowner. When negotiations are successfully completed, and approved by the charterer and the owner, a chartering agent prepares the "charter party" for signatures. (See also "ship's agent" and "charterer's agent.")

Chartering broker. Same as "chartering agent."

Charter party. The charter party is a written contract between a shipper (or his agent) and a shipowner (or his agent) to spell out the terms of lease (or hire) of a specified ship (or use of shipping space on the vessel) and pickup and delivery of a cargo. The shipper is the "charterer." A U.S. seller of grain is concerned with a charter party only if he sells c.i.f. or c.&f.; he is not involved if he sells f.o.b. The form used most frequently is the "Baltimore Form C Grain Charter Party." Also in common use is the "Norgrain Charter Party." In either case, many additional provisions are needed to cover adequately all of the developments that may occur. A charter party may be drawn to cover a single voyage, consecutive voyages, or a specified period of time, such as 1 year. (The charter party differs from a "fixture" in that the latter word refers to the completion of the agreement rather than to the formal, written document.) (See also "berth charter," "clean charter," "port charter," "time charter," and "voyage charter.")

Checklist. The checklist is a message from the charterer to his "charterer's agent" after

the loading of the ship has been completed. It provides the following information: Stowage (if more than one commodity on board), date and number of bill of lading, charterer's invoice number, charterer's agent's contract number, inspection certificate number, weight of cargo, and weight certificate number.

C.i.f. The abbreviation for "cost, insurance, and freight" via carrier to a designated location; for an overseas shipment of grain the carrier is an oceangoing vessel and the location is a named port of destination or a named geographic range of foreign ports. Under this delivery term of sale, the seller provides the grain and pays all expenses up to the time the cargo is unloaded over the ship's rail. The buyer pays the cost of unloading from the ship's rail overboard. In addition to insurance covering the usual causes of loss or damage to grain, the seller must obtain and pay for additional insurance for risks related to war, strikes, riots, and civil commotions. However, if the rate charged for war risk insurance exceeds a specified fraction of the value of the shipment, the excess will be for the buyer's account. (In some instances, but only by special and mutual agreement between buyer and seller, the seller will pay not only the cost of discharging the grain from the ship's holds to the ship's rail but also the cost of unloading the cargo from the ship's rail overboard. This is an exception to c.i.f. terms rather than an optional clause.) (See "free in," "free out," "gross terms," and "net terms.")

C.i.f. price. A seller's offering price, buyer's bid price or final sales price based on the "c.i.f." delivery term of sale.

C.i.f. sale. A sale based on the "c.i.f." delivery term of sale.

Clean charter. A "charter party" that is essentially of standard kind without unusual terms.

Commercial invoice. See "invoice."

Common carriers. Steamship lines that provide regularly scheduled service between ports and publish uniform freight rates and contract conditions are called "common carriers." Such carriers are used for exports of most U.S. foodstuffs but not bulk grain; the latter is handled by "private carriers."

Conference rates. There are a large number of shipping conferences; each consists of a group of "common carriers" serving the same trade route. They set uniform freight rates (with a lower rate to a shipper who agrees to use conference vessels exclusively) and establish certain trade practices. Since U.S. cooperatives and other grain exporters use "private carriers" for bulk shipments, they are not directly concerned with "conference rates."

Contract of sale. The "contract of sale" is a written agreement between buyer and seller that sets forth the terms of sale. The form used ordinarily will vary between kinds of sales and commodities as follows: F.o.b. sale of grain or soybeans—"NAEGA Contract No. 2, Revised;" c.i.f. or c.&f. sale of grain—"GAFTA Contract;" c.i.f. or c.&f. sale of soybeans—"FOSFA Contract." (The names of the trade associations that issue these forms are given herein under the definitions of the three basic forms.) These forms may be used for all destinations but are not always used. Some buyers use their own forms, particularly foreign state trading agencies buying on a c.&f. basis and other buyers in Latin America.

Corn. To avoid confusion, the term "yellow corn" often is used. (See "maize," "wheat" and "grain.")

Cover shorts. To buy the quantity needed to equal the quantity resold for future delivery that was in excess of that owned at the time of resale. (See "go short.")

Cover the insurance. The term "cover the insurance" is used to indicate who obtains and pays the cost of a needed insurance policy. (See also "insurance cover," "c.i.f." and "c.&f.")

Custom of the port. This rather indefinite term refers to the usual customs and practices in handling grain at a designated port.

Days on demurrage. These are the days on which "demurrage" is incurred.

Deadfreight. Deadfreight is "freight" payable on the quantity of cargo (if any) that the charterer agreed to ship but did not actually ship.

Del credere. Guarantee by supplier's agent of payment by a third person (foreign buyer) to the principal (U.S. supplier) in connection with a sale.

Delcredere risk. The risk that a buyer will not be solvent at the time payment is due for a quantity of product sold to him. (See "del credere.")

Delivery order. This is a document that replaces the bill of lading with respect to authorizing delivery of grain when a cargo has been sold in "parcels" to two or more buyers. There are two kinds. The "ship's delivery orders" are issued by the shipowner or his agent in exchange for the bill of lading. The other "delivery orders" are issued to buyers by the seller's representative. At the appropriate time, the seller's representative submits the bill(s) of lading to the shipowner or his agent and usually includes copies of the delivery orders he has issued to buyers.

Demurrage. Rate or amount payable, per "weather working day" or portion thereof, to the shipowner by the charterer as a penalty for latter's failure to load or discharge a cargo within the "laytime" specified in the "charter party;" provided, however, that the delay was due neither to circumstances within the control of the shipowner or beyond the control of the charterer. The rate of demurrage is determined by the shipowner in accordance with the size of the ship and rates generally prevailing. Demurrage is the opposite of "despatch" and the rate of demurrage usually is double the rate of despatch.

Despatch. Rate or amount payable, per "weather working day," or portion thereof, by the shipowner to the charterer as a reward for latter's accomplishment of loading or discharging a cargo in less than the "laytime" specified in the "charter party." Despatch is the opposite of "demurrage" and the rate of despatch usually is one-half the rate of demurrage. (See "free despatch.")

Despatch days. These are the days on which "despatch" is earned.

Destination control statement. A statement of intent by the buyer and seller to the effect that the cargo is not destined for specified countries. (In early 1976 these countries were Cuba, North Korea, North Vietnam, South Vietnam, Cambodia, and Rhodesia.) The U.S. Government requires use of the statement on each bill of lading and invoice; it also should be in the contract of sale. The statement sometimes is referred to as the "Bufoc clause."

Discharge. The unloading of the cargo at the port of destination.

Dispatch. Each charter party contains the phrase, "with customary berth dispatch." This means that the vessel will be loaded at the rate of speed customary at commercial grain berths in the United States. (A rather flexible definition that has meaning only as a person is familiar with general variations from one country to another.)

Dockage. May mean either (1) the foreign material in grain that is readily removable by ordinary cleaning procedures, or (2) a charge for use of docking facilities that is made

by the local port authority in certain ports. In latter case, may also be called "dockage fee" or "loading fee" or "discharge fee."

Draft. This is a document prepared by the seller to provide for payment to him of the amount due for a shipment. It is addressed to the buyer and provides that he shall pay the stated amount on demand or at a fixed or determinable future time. (See "sight draft" and "time draft.")

Draft (or draught). The "draft" of a vessel is the perpendicular distance between the waterline and the bottom (or "keel") of the vessel when it is loaded. (See also "loading draft" and "maximum loading draft.")

Dunnage. Temporary blocking, bracing, or loose articles placed in the hold of a ship (or in a railroad freight car) to reduce movement and damage of cargo during shipment.

Elevator. In the international grain trade, an "elevator" is a large, special piece of equipment used in a port to load or unload grain, under hydraulic pressure, into or out of a vessel. The grain may be weighed in the elevator, in batches, in the presence of a representative of the seller and a representative of the buyer. Such specialized equipment is not available at many ports of the world. (When the word "elevator" is used in this sense, there is no relationship to its use in the United States to identify a grain storage structure.) (See "floating elevator," "port elevator," and "silo.")

ETA. Abbreviation for the "estimated time of arrival" of a vessel at a named port, either the loading port or the discharge port.

Export license. An export license is not required to export grain from the United States. All exports of grain, or just those to certain countries, have been halted at times under very unusual conditions. Exports to certain named countries are prohibited. (These countries were Cuba, North Korea, North Vietnam, South Vietnam, Cambodia, and Rhodesia early in 1976). (See "destination control statement.")

Export sales reporting. The Office of the General Sales Manager, U.S. Department of Agriculture, operates an "export monitoring program." Each week it assembles and publishes data pertaining to the quantities of grains, oilseeds, and oilseed products that were sold for export to various destinations. The export data are compared with U.S. and foreign supply-demand projections. This is an information program, not a control program.

Export Subsidies. There are (as of early 1976) no direct subsidies involved in exporting U.S. soybeans and grains. Some competing supplier countries have subsidized exports of certain grains in recent years.

Extension. Same as "extension of shipment."

Extension allowance. This term refers to the *amount or rate* of penalty to be paid by the seller to the buyer for "extension of shipment." For example, the penalty may be one-half of 1 percent of the previously agreed upon sales price for 1 to 4 days; 1 percent for 5 or 6 days; and 1½ percent for 7 or 8 days delay. Then if the shipment does not take place within 8 days, the seller is considered to be in default.

Extension of shipment. The contract for a c.i.f. or c.&f. sale of a parcel of grain to a buyer contains an "extension of shipment clause." If the U.S. supplier cannot load the grain within the contractual shipment period, he must pay a penalty even though he or his representative "claims extension." (See also "extension allowance.")

Extension of shipping allowance. Same as "extension allowance."

F.a.s. The abbreviation for "free along side" a carrier at a designated location; for an

ocean shipment, the carrier is an oceangoing vessel at a named U.S. port. Under this delivery term of sale the seller provides the grain and pays all expenses up to and including placing the grain on a dock ready for loading. The buyer pays the cost of loading into the vessel and all subsequent costs. F.a.s. price quotations are not used in the international grain trade except for relatively small shipments of bagged grain. (Sometimes f.a.s. is said to be an abbreviation for "free alongside" or "free alongside ship," rather than "free along side." There is no difference in meaning when reference is made to the situation at a named port.)

Final weight. The "final weight" is the weight figure used to determine the amount of the payment for the shipment. In an f.o.b. sale, the weight shown on the bill of lading is final. In a c.i.f. or c.&f. sale, the weight on the bill of lading usually is final, but if an "elevator" is used for discharge the weight at discharge is final.

F.i.o. Abbreviation for "free in and free out."

F.i.o.t. Abbreviation for "free in, free out, and free trimmed." Also implies "free stowed." (See separate definitions for "free in," "free out," "free trimmed," and "free stowed.")

5 p.c. Reference to "5 p.c." in a "charter party" means that the shipowner (*not* the charterer) has the option to receive 5 percent more or less than the stated "carrying capacity" of the vessel.

Fixture. Agreement between shipowner and "charterer" (charterer is seller in case of c.i.f. or c.&f. sale, buyer in case of f.o.b. sale) for space on a specific vessel; usually for one voyage but may be for several consecutive voyages. (Differs from "charter party" in that latter term refers to the written document rather than completion of the agreement.)

Floating elevator. An elevator on a barge that may be moved alongside a vessel to load or unload. Much of the grain unloaded at Rotterdam—the world's largest grain discharge port—is handled by floating elevators. (See "elevator.")

F.o.b. The abbreviation for "free on board" a carrier at a designated location; for an overseas shipment of grain, the carrier is an oceangoing vessel and the location is a named U.S. port or geographic range of U.S. ports. Under this delivery term of sale, the seller provides the grain and pays all expenses up to and including the cost of loading the cargo into the holds of the vessel. The costs of "stowing" and "trimming" the cargo in the holds of the vessel are not included unless specifically covered.

F.o.b. price. A seller's offering price, buyer's bid price, or final sales price based on the "f.o.b." delivery term of sale.

F.o.b. sale. A sale based on the "f.o.b." delivery term of sale.

FOSFA Contract. A "contract of sale" form issued by the Federation of Oils, Seeds and Fats Association, Ltd., of London. It is used for c.i.f. and c.&f. sales of soybeans from the United States to foreign destinations.

F.P.A. An abbreviation for "free of particular average."

Free despatch. This phrase, when included in a "charter party," means that despatch money cannot be earned. (See "despatch.")

Free discharge. Same as "free out."

Free elevator. An elevator that will be available to start loading or discharging cargo as soon as the vessel arrives at its berth.

Free in. Arrangements for loading the cargo and payment of the related costs are made by the charterer. This includes transfer of grain from a silo or a vessel to the holds of the seagoing vessel but does not include trimming. To avoid misunderstanding, the charter party may specify "unstowed and untrimmed" or "stowed and trimmed."

Free of particular average. A term that may appear in the "charter party." It refers to insurance coverage against partial or total losses under most conditions. The coverage differs somewhat for "American conditions" versus "English conditions." (See also "general average," "particular average," and "W.P.A.")

Free out. This term means that arrangements for "discharge" of the cargo and payment of the related costs are all made by a single buyer. Included are the costs of transferring grain from holds of a seagoing vessel to another vessel or a silo. However, in most c.i.f. sales, "parcels" are sold to two or more buyers. In such case, arrangements and payments for moving the grain up to the ship's rail customarily are made by the charterer.

Free stowed. Arrangements for "stowing" the cargo, and payment of the related costs, are made by the charterer.

Free trimmed. Arrangements for "trimming" the cargo, and payment of the related costs, are made by the charterer.

Freight. In domestic marketing the word "freight" generally refers to a quantity of a commodity being shipped but in the international grain trade it usually refers to the cost (quantity multiplied by freight rate per long ton) of shipping cargo. There are some exceptions to the latter; e.g., a shipowner considering alternative uses for his ship may identify as a "freight" the quantity of each of several commodities available for shipment.

Full and complete cargo. This phrase in the "charter party" refers to the quantity of cargo that, in accordance with the customs of the port, will bring the vessel down to her minimum permissible draft (draught). The phrase "5 percent more or less in the owners' option" usually is added. (If the charterer does not load as much as the captain calls for, the shipowner is entitled to "deadfreight.")

Full cargo. This is a term used to describe the quantity sold when an entire shipment is made to one buyer. The sale may be f.o.b., c.&f., or c.i.f.

GAFTA Contract. A "contract of sale" form issued by the Grain and Feed Trade Association, Ltd., of London. It is used for c.i.f. and c.&f. sales of grain from the United States to foreign destinations.

Gantry. A fixed structure supporting conveyor belts on which grain is moved from a storage silo (or "port elevator"). The grain then flows through movable spouts into the holds of a vessel.

General average. This is a term in the "charter party" that means there will be an apportionment among all shippers of cargo, and the shipowner, of the expense involved in a loss incurred by one or more shippers as the result of a voluntary sacrifice or extraordinary expenditure that was necessary for the general benefit of all persons concerned. Thus a shipper may be assessed for damage to another shipper's cargo even though his own cargo was not affected. Conversely, if his cargo is damaged as the result of a "general average act," other shippers will have to share the loss with him. In either case, his liability should be covered under his insurance policy.

GNS. This is an abbreviation for "German North Sea." The meaning is the same as "port on German North Sea."

Go long. When an export firm or trading company anticipates a rise in the price of a grain, it may "go long." That is, it buys a specific quantity for future delivery in excess of that for which it has orders from buyers. Later, at an appropriate time, it will sell-out—cover its long position—in the hope of making a profit.

Go short. When an export firm or trading company anticipates a decline in the price of a grain it may "go short." That is, it sells a specific quantity for future delivery without actually having bought an off-setting quantity earlier. Later, at an appropriate time, it will buy-in (cover its short position) in the hope of making a profit.

Grab discharge. Removal of cargo by use of mechanical devices to scoop up the cargo portion by portion, rather than to remove it in a steady flow under hydraulic pressure through a regular elevator. (Not apt to be used for grain in Western Europe, except in certain Italian ports, but widely used in many other areas.)

Grain. "Official United States Standards For Grain" have been established under the United States Grain Standards Act for wheat, corn, barley, oats, rye, grain sorghum, flaxseed, soybeans, and mixed grain. The word "grain" may also be used in the trade to include rice, paddy (rice in the husk), pulses (edible seeds of leguminous plants such as peas, beans, and lentils), cottonseed, other seeds, nuts, and nut kernels. (See also "maize," "grain sorghum," and "soyabeans.")

Grain berth. A "berth" specifically designed to handle shipments of grain. (See also "port elevator.")

Grain cargo certificate. A written statement by a competent surveyor certifying that a vessel is in satisfactory condition for carrying grain.

Grain sorghum. Grain sorghum (Sorghum vulgare) is also called sorghum grain, milo, milo-corn, yellow American grain, and millet. (See also "grain.")

Gross discharge. Arrangements for discharging the cargo and payment of related costs are made by the shipowner.

Gross loading. Arrangements for loading the cargo and payment of related costs are made by the shipowner.

Gross terms. Costs of loading, stowing, trimming, and discharge are paid by the shipowner. (See "gross discharge" and "gross loading.")

Gulf ports. All U.S. ports on the Gulf of Mexico; includes those in western Florida through Texas.

Harbor superintendent. See "superintendent."

Heavies. Abbreviation for "heavy grain."

Heavy grain. All "grain" other than oats, light barley (50 pounds or less per full bushel), and flaxseed. Thus it usually means wheat, corn (maize), rye, and sorghum grain. Freight rates are lower for "heavy grain" than for "light grain" because it takes less space per ton. (See "grain" and "light grain.")

Hold. A cargo compartment in the interior of a ship.

Hundredweight. In the United States, this always means 100 pounds. In Great Britain, the term "hundredweight" means 112 pounds and a "short hundredweight" or "cental" equals 100 pounds. These measures of weight are not often used in the international grain trade but may be used for shipments of bagged grain to some ports.

Import license. Imports of some U.S. nongrain commodities can be made into certain countries only by a person holding an import license; in those situations it often is

desirable to know whether a prospective buyer actually has an import license or merely hopes to obtain one later. Very few countries require import licenses for grain. In all cases, it is the responsibility of the buyer to obtain an import license when it is required by his government; this has not been a problem with respect to our commercial grain exports.

In geographical rotation. When a charterer has the option of discharging a vessel at several named ports, the phrase "in geographical rotation" may be included in the "charter party." In such event, the charterer has to bear any additional expenses (such as extra fuel consumption and loss of time) if he requires the vessel to go to the ports in such sequence that distance and time are not kept to the minimum. To obtain the owner's consent to a break in the regular geographical rotation, he may find it necessary to negotiate.

Insurance cover. The term "insurance cover" refers to coverage of risks under an insurance policy. (See also "cover the insurance," "c.i.f." and "c.&f.")

Invoice. A statement prepared by the seller to identify the commodity sold and to set forth the principal terms of sale.

Jetty. May refer to a harbor breakwater; a small, protective pier of timbers; or a landing-pier that lies parallel with the flow of the tidal stream. In the grain trade, sometimes used to mean a large pier that is a permanent structure extending into the harbor for use in loading or unloading ships. The maximum length is set by the local port authority. Permanent elevators on a jetty move on tracks. On a large jetty, as many as six ships—three on each side—may be loaded or unloaded at one time.

Lakehead. Ports of Duluth and Superior at the head of the Great Lakes in the U.S.

Layday. A day during the "laytime." (See also "weather working day.")

Laydays/canceling. This phrase is followed by specific dates. The first date is the first "layday" and the last date is the "canceling date."

Laytime. Period during which the vessel can be loaded or unloaded without payment of "demurrage." Consists of a specified number of "laydays." Laytime usually begins at 7 a.m. of the first business day following "notification of readiness."

Letter of credit. A letter of credit is a document providing for payment for commodities purchased. It is issued by a bank at the request of the buyer and in favor of the seller. It is a promise by the bank to pay within a specified time, if certain specified conditions are met, the money due upon receipt by the bank of designated documents. Preferably, it should be irrevocable and also confirmed for the seller by a U.S. bank. Then the buyer cannot alter the terms in any way without agreement by the seller, and the U.S. bank has accepted responsibility to pay the seller as soon as the documents are received. Such an instrument greatly reduces credit risks.

Lift a leg. A trader who chose to "go long" or "go short" may decide later to make his move in the futures market either before or after his move in the cash market. Such a course of action is referred to as "lift a leg." The kind and quantity of commodity involved in the two markets are the same. (See also "make a switch.")

Lighter. A "lighter" is a boat or barge, usually flat-bottomed, that is used in loading or unloading an oceangoing vessel not lying at a jetty or wharf.

Light grain. Oats, barley (the average weight of U.S. barley is 48 pounds per bushel; if it weighs more than 50 pounds it is classed as a heavy grain), and flaxseed (flaxseed is relatively heavy—about 56 pounds per bushel—but is hard to handle because of the small size of the seeds). There are no official U.S. grain standards for cottonseed but in

the trade it sometimes is classed as a light grain. Freight rates are higher for "light grain" than for "heavy grain" because (except for flaxseed) it takes more space per ton. (See "grain" and "heavy grain.")

Lights. Abbreviation for "light grain."

Liner bill of lading. A form prepared by an individual carrier for shipment of a partial load of grain from a U.S. port. (See "bill of lading.")

Liner terms. Same as "berth terms."

Loading capacity. Same as "carrying capacity."

Loading draft. The "loading draft" is the minimum depth of water needed to permit a specific vessel to load or unload safely (always afloat) at a jetty or other berth. It is equal to the "draft," plus 4 to 6 inches as a margin of safety. (See also "maximum loading draft.")

Longshoreman. A "longshoreman" is a person who performs the physical labor of loading, stowing, and unloading of cargo.

Long ton. A "long ton" is equal to 2,240 pounds. When reference is made to the quantity of grain shipped, the unit of measurement is always the "long ton." When reference is made to the price received for grain, the unit of measurement will continue to be the "long ton" in England until August 1, 1976, but thereafter it will be the "metric ton" there as in most other countries. (See also "metric ton" and "short ton.")

Maize. The commodity called "corn" in the United States is called "maize" or "Indian corn" in Great Britain. Variations of the word maize are used in other important grain handling countries; e.g., corn is called "mais" in the Netherlands. (See "grain.")

Make a straddle. To "make a straddle" (or "open a straddle") a trader will buy grain futures for a selected month and sell futures for another month. The commodity purchased may not be the same as that sold but the values will be about the same.

Make a switch. A trader who chose to "go long" or "go short' may decide later to make his move in the futures market at the same time he acts in the cash market. Such a course of action is referred to as "make a switch" since the action taken in the cash market (buying or selling) is the opposite of that taken in the futures market. The kind and quantity of commodity involved in the two markets are the same. (See also 'lift a leg.")

Mate's (or Captain's) receipt. Signed statement reporting loading of a specified quantity of grain. Used to prepare bill of lading.

Maximum loading draft. The "maximum loading draft" is equal to the actual depth of water, when at its minimum level, plus 4 to 6 inches as a margin of safety. Thus, this figure is the maximum "loading draft" that *any* vessel could have and still be sure of a "safe berth." Unless the shipowner is thoroughly familiar with the berth, he will insist that the maximum loading draft figure be guaranteed by the charterer.

Maximum possible draft. Same as "maximum loading draft."

Metric ton. A metric ton is equal to 2,204.6 pounds. (See also "long ton" and "short ton.")

Milo. Same as "grain sorghum."

NAEGA Contract No. 2, Revised. A "contract of sale" form issued by the North American Export Grain Association. It is used for f.o.b. sales of grain and soybeans from the United States.

Nearby contract. The first contract that is open, in reference to market quotations for futures; e.g., in early October the nearby contract is the December contract. (Does *not* refer to a "contract of sale" made between two individual firms.)

Net capacity. Same as "carrying capacity."

Net terms. Costs of loading, stowing, trimming, and discharge are paid by the charterer. Same as "f.i.o." and free stowed.

New Jason clause. The "general average" is payable according to the York/Antwerp Rules, 1950, but on shipments of U.S. grain there is an adjustment called the "New Jason clause." Under this clause in a "charter party," the shipper may participate not only in the general average but also in salvage costs.

Nomination of vessel. Identification by grain buyer, for the information of the seller, of the ship that will arrive during the agreed-on delivery period to load grain. The seller is told the name and the "ETA" of the vessel.

Norgrain charter party. A form of charter party for shipments of grain from U.S. ports. Used extensively but less frequently than the "Baltimore Form C Grain Charter Party." (See "charter party.")

Northern Range. These are the ports on the northeastern coast of the United States. Included are Norfolk, Newport News, Baltimore, Philadelphia, New York, Boston, and Portland.

Notice of readiness. Same as "notification of readiness."

Notification of readiness. Notice is given to the charterer by the shipowner or his agent that the ship is within the physical boundaries of the port, has passed customs, and is otherwise ready to load or discharge the cargo. When ready to load, this includes receipt of a statement from an inspector certifying that the vessel is ready in all compartments. (A few ports have a special clause enabling the shipowner to give "notification of readiness" to discharge when the ship is "in the vicinity of the port." Such a clause deserves careful consideration since a delay in discharge can be expensive. See "laytime.")

Ordinary commercial berth. An "ordinary commercial berth" is a berth designed to handle shipments of commodities that are of higher value in relation to volume than is grain. It is not equipped with "elevators" and therefore the cost for handling grain is high.

Outturn. The shortage or loss (or the overage or gain) of grain, in percent, when delivered weight at time of discharge is compared with weight loaded as shown on bill of lading. (For grain in dry cargo, the usual range in shortage is from 0.1 percent to 0.3 percent, with the average about 0.2 percent. Higher losses are incurred for shipments in tankers.)

Owner. Unless otherwise qualified, the words "owner" and "owners" always refer to the "shipowner," never to the shipper or buyer(s) of the cargo.

P. & I. bunkering clause. This clause in a "charter party" provides that the shipowner can at any stage of the voyage go to any port for the purpose of taking on fuel oil.

Parcel. A "parcel" is a small shipment of less than full cargo; if a shipment consists of two or more parcels, they may or may not comprise a full cargo.

Parity. In international finance, parity is the official rate of exchange within a country between its currency and that of another country. The exchange rates for the U.S. dollar and the currencies of foreign countries now (early 1976) "float;" i.e., there is no

fixed parity nor preselected points at which our government is required to buy or sell a foreign currency to keep the actual rate of exchange—as set by supply and demand—within a certain range.

In the grain export trade, parity is the price at a designated port that is equivalent to the price at another designated port; i.e., "parity" is achieved when the price at port A, plus or minus the difference in ocean freight and other costs, equals the price that would be obtained if the grain were sold at port B.

Particular average. In contrast to the situation described under "general average," in some cases there is considered to be no question of common interest and the shipowner or the charterer bears his own loss. Such a division of liability is referred to as "particular average." (See also "general average," "F.P.A." and "W.P.A.")

Peniche. A small barge used for transshipment of grain at an Italian port of destination.

Pier. A metal or wooden structure, usually open below, that juts out into the water and may be used for loading or unloading cargo or passengers.

Port charges. "Port charges" are levied by the port authority and are paid by the shipowner regardless of whether the costs of loading, stowing, trimming, and discharge are paid by the shipowner or the charterer under "gross terms" or "net terms." (Reference here is to charges related to the use of the port and not to use of docks or storage facilities operated by the port authority. A relatively small shipment of bagged grain—or canned food, for example—may incur certain port charges in some ports.)

Port charter. A "charter party" that provides for delivery of grain to a specified port. (See also "berth charter" and "whether in berth or not.")

Port elevator. A term used in the United States to identify a physical facility that has temporary grain storage capacity and the equipment needed to load grain into an oceangoing vessel stationed at a grain berth. Port elevators, as well as certain U.S. inland elevators, sometimes are called "terminal elevators." (See "elevator" and "grain berth.")

Port on German North Sea. When given as the destination range of ports, this term includes all German ports on the North Sea. Usually means Bremen or Hamburg, sometimes includes Emden, but not likely to include any port other than these three because of limited facilities for handling grain in the other ports.

Position. This term refers to an export firm's current situation with respect to total sales commitments, supply commitments, arrangements and loading schedules for future export shipments, and frequently—though not necessarily—its involvement in the futures and ocean freight markets. The larger its position, the more flexibility an export firm has in switching grain supplies and ship loadings under various sales contracts to maximize its overall net margin. (Some related terms, with narrower meanings, are sales position, cash position, futures position, freight position, taking a position, and nearby position.)

Private carriers. "Private carriers" are "tramp" ships or charter vessels without fixed itineraries or schedules whose owners negotiate with individual shippers to enter into mutually agreeable "charter parties." They are the customary choice for exports of U.S. grain. (See also "common carriers.")

Pro forma contract/invoice. A "pro forma" contract or invoice is a preliminary or temporary form of document prepared before all final details are known. It covers a contemplated shipment and provides estimates of shipping conditions and costs.

Revert. The word "revert" may be used to refer to an action that will or should be taken in followup to the current discussion. E.g., the phrase "will revert" is used to indicate that the writer (or speaker) will obtain additional information pertinent to the subject and provide it as soon as possible.

Rye terms. These are special provisions that apply to grain shipments made in U.S. and European tankers, and in all South American vessels whether tankers or dry cargo. In brief, they mean that the seller guarantees that the grain will arrive in as good condition as it was when it was loaded.

Safe berth. Provision is made in the "charter party" for the vessel to proceed to a "safe berth" in a designated port and to load or discharge there "always afloat." This means that the vessel can be fully laden at the berth without going aground, thus avoiding the use of "lighters" to receive or supply part of the cargo before or after the vessel is berthed, and it can avoid any damage for which the charterer might be held responsible.

Safe port. The "safe port" requirement in a "charter party" is a guarantee that the port of loading, or discharge as the case may be, will be one that is generally able to handle grain ships and cargoes safely and the vessel will always be safely afloat.

Sailing in ballast. Same as "ballast voyage."

Sales contract. Same as "contract of sale."

Sample grade. This is grain that is of too low quality to be classified within an official grade.

Sell-out longs. Or "sell his longs." These are terms used to describe the situation when a trader sells the quantity in excess of that for which he had orders from clients when he made his purchases. (See "go long.")

Shipbroker. Same as "chartering agent."

Shipowner. The individual or company that owns a specific vessel.

Shipper. When used in reference to ocean transportation of grain, the words "shipper" and "charterer" are synonymous. In this context, a cooperative is not the shipper if it does not contract for part or all of the cargo space on a vessel.

Shipper's export declaration. This form must be completed for every export shipment of every kind of commodity. Information must be entered on the form to enable the U.S. Government to publish statistical summaries about the export trade. The form is issued by the U.S. Department of Commerce.

Ship's agent. A ship's agent is a person representing one or more shipping companies serving a port. He makes sure that a berth is available for each vessel, nominates a stevedore, issues bills of lading, arranges for outgoing cargo to be delivered alongside ship, arranges for incoming cargo to be delivered to receivers, informs parties concerned about conditions to be mentioned in the charter party, and makes the payments for the pier, harbor, and pilot. (See also "chartering agent" and "charterer's agent.")

Short ton. This is the standard "ton" of 2,000 pounds in U.S. In the international grain trade, this unit of weight is rarely used; if used, it must be referred to as a "short ton." (See "long ton" and "metric ton.")

Sight draft. A "sight draft" is a "draft" requiring the buyer to pay the stated amount as soon as he sights the draft; in other words, payment is due immediately—with some qualifications—after he receives the draft. The draft is in negotiable form—made out to

the order of the payee (seller)—and the payee can transfer title to a new payee by endorsing it.

Silo. Structure in which grain is stored. At U.S. ports, American grain usually is stored temporarily in a silo or "elevator" prior to loading into an oceangoing vessel. At major foreign ports, American grain may be stored temporarily in a port silo but it usually is transported from the harbor to an inland silo for storing. (See "elevator.")

South Atlantic Ports. All ports from (but not including) Norfolk-Cape Hatteras through the eastern coast of Florida.

Soyabeans. "Soyabeans" is the English spelling of the word that is spelled "soybeans" in the United States. (See also "grain.")

Specific gross discharge. This is the rate of "discharge" for a named vessel in terms of a specific number of long tons per hour. E.g., "1,000 gross discharge" means a discharge rate of 1,000 long tons per hour.

Splits list. This is a message from the "charterer's agent" to the charterer after the loading of a ship has begun. It informs the charterer as to the number of the sales contract and the quantity involved for each "parcel" sold to a foreign buyer.

Statement of facts. This is a detailed statement prepared by the "ship's agent" to serve as an official record of the loading or unloading of a cargo into or out of a vessel.

Stem a cargo. This phrase refers to the act of shipping a cargo.

Stevedore. A "stevedore" is a person or company responsible for stevedoring; i.e., for the unloading or the loading, stowing, and trimming of cargo. He supervises the work of "longshoremen."

Stowage. The placing of a cargo in a vessel as it is being loaded.

Straddle. See "make a straddle."

String of contracts. A "string of contracts" consists of a number of sales contracts relating to a specific quantity of grain. One trader sells the grain to another, he sells to still another, etc. A trader may buy and sell a given quantity more than once. It is very important, however, that each contract in the string be observed.

Superintendent. The term "superintendent" refers to the individual or company (usually a large company) that supervises discharge of the grain in the port of destination. He helps earn "despatch" or reduce "demurrage" on the cargoes he handles. In case of a c.i.f. or c.&f. sale, the superintendent's expenses are for the account of the U.S. shipper. The "charterer's agent" recommends a superintendent for selection by the shipper and works closely with the one selected. The superintendent keeps informed about the "ETA" of the vessel, maintains liaison with the company handling the discharge, checks weights of parcels to individual buyers, may check the scales for accuracy, arranges for a berth and discharge of cargo, receives "notification of readiness" from the captain, informs buyers when the ship will be ready to discharge so they will be ready to receive, may charter lighters to have in reserve if additional ones can reduce the discharge time, and may suggest payment of overtime if an overall saving is possible.

Sucker. Tubular device through which grain in a ship's hold is drawn up and out under pneumatic pressure. Also called suctionpipe.

Switch. See "make a switch."

Tanker. A tanker is an oceangoing vessel designed for bulk shipment of fluids, prin-

cipally petroleum, that may be used for shipping grain after it has been thoroughly cleaned.

Tender. A bid to purchase, or an offer to sell, a specified quantity of a commodity under prescribed conditions. May be made by commercial firms or by foreign government entities. "Public" tenders to buy are open to all qualified suppliers, whereas "private" tenders to buy are open to selected suppliers only.

10 p.c. Reference to "10 p.c." in a "charter party" means that the shipowner (*not* the "charterer") has the option to receive 10 percent more or less than the stated "carrying capacity" of the vessel.

Time charter. This is a form of "charter party" in which cargo space in a vessel is contracted for a specified period of time.

Time draft. A "time draft" is a "draft" requiring the person to whom it is addressed (buyer) to pay at a fixed or determinable time in the future. (In England, the buyer has 3 days' grace; that is, he does not actually have to pay until 3 days after the maturity date of the draft.) The time draft may provide for payment a specified number of days after it was issued (e.g., "60 days after sight.")

Tokyo Round. Popular name of multinational negotiations now underway under GATT (General Agreement on Tariffs and Trade) that are directed toward reducing barriers to international trade. If successful, the "Tokyo Round" of negotiations could increase opportunities for exports of U.S. grains.

Tramp ship. Same as "private carrier."

Trimming. "Trimming" is the final part of the act of "stowage" of grain; it refers to the leveling and final placement.

U.S. clause paramount. When the "U.S. clause paramount" is provided for in a "charter party," the provisions of the U.S. Carriage of Goods by Sea Act (1936) take precedence in case of any direct conflict between those provisions and the terms of the charter party or the bill of lading.

Usuance or tenor. This phrase indicates the time of payment of a draft; e.g., a "sight draft" customarily is paid on presentation.

Voyage charter. This is a form of "charter party" in which cargo space in a vessel is contracted for a specific voyage.

War risks clause. This is a two part, self-explanatory clause in a "charter party" to protect the shipowner in the event of war, blockade, or governmental action by the nation under whose flag the vessel sails.

Weather working day. Provision usually is made in the "charter party" that each "lay-day" during "laytime" is to consist of a "weather working day of 24 consecutive hours." The term "working day" refers to a day of the week or year on which loading or discharge work normally is performed (Sundays and holidays are excluded), the number of hours that make up a normal day (or, in some instances, the quantity of grain that is considered to represent a normal day's work), and the hours of a day during which work normally is performed—all according to the custom of the port involved. Addition of the word "weather" means that a day that would otherwise count as a "working day," but on which work was prevented by adverse weather, will not count as a "lay-day." Addition of the phrase "of 24 consecutive hours" is made to define the term "working day" more precisely in order to reduce the chances for disagreements regarding proper calculation of the number of such days actually involved in loading or discharging a cargo.

Wharf. A wharf is a platform beside which a ship may moor for loading or unloading. A seagoing grain vessel customarily uses a "gantry," "jetty," or "floating elevator," rather than a wharf, in major grain loading or unloading ports.

Wheat. The commodity called "wheat" in American English is called "corn" in British English. Care must be taken to avoid a misunderstanding in any overseas country. (See "grain," "corn" and "maize.")

Whether in berth or not. This phrase is used in order to avoid arguments with respect to calculation of "laytime." When it is included, the "charter party" may be referred to as a "port charter" rather than a "berth charter."

Working day. See "weather working day" to determine difference between these terms.

W.P.A. An abbreviation for "with particular average." The terms and benefits of "F.P.A." insurance are included automatically in "W.P.A." In addition, limited insurance coverage is provided for partial losses due to heavy weather. (See also "general average," "particular average," and "F.P.A.")

W.W.D. An abbreviation for "weather working day(s)."

Yellow American grain. See "grain sorghum."

APPENDIX B

CONVERSION FACTORS FOR QUANTITIES AND PRICES

Table 1

To convert		Quantity	Price/ton
From	To		
		Multiply by:	Divide by:
Long tons	Metric tons	1.016	1.016
Long tons	Short tons	1.12	1.12
Metric tons	Long tons	.9842	.9842
Metric tons	Short tons	1.1023	1.1023
Short tons	Long tons	.8929	.8929
Short tons	Metric tons	.9072	.9072

Table 2*

Commodity	To convert from bushels to long tons		To convert from bushels to metric tons	
	Quantity	Price/bu.	Quantity	Price/bu.
	Divide by:	Multiply by:	Divide by:	Multiply by:
Barley	46.6667	46.6667	45.9296	45.9296
Corn (maize)	40	40	39.368	39.368
Rye	40	40	39.368	39.368
Sorghum grain	40	40	39.368	39.368
Soybeans	37.3333	37.3333	36.7433	36.7433
Wheat	37.3333	37.3333	36.7433	36.7433

Table 3*

Commodity	To convert from long tons to bushels		To convert from metric tons to bushels	
	Quantity	Price/LT	Quantity	Price/MT
	Multiply by:	Divide by:	Multiply by:	Divide by:
Barley	46.6667	46.6667	45.9296	45.9296
Corn (maize)	40	40	39.368	39.368
Rye	40	40	39.368	39.368
Sorghum grain	40	40	39.368	39.368
Soybeans	37.3333	37.3333	36.7433	36.7433
Wheat	37.3333	37.3333	36.7433	36.7433

*NOTE. These factors are not exact for all grades and varieties. They are based on "average" weights per bushel as follows: Barley - 48 lbs; corn, rye, sorghum - 56 lbs.; soybeans, wheat - 60 lbs.

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